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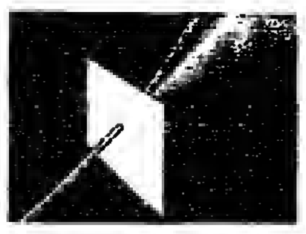

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World Business Newspaper http://www.FT.com THURSDAY JULY 24 1997

Burma and Laos become latest Asean members

Burma and Laos have become members of the Association of South-East Asian Nations amid controversy over the group's attempts to broker a settlement in Cambodia. Cambodia should have joined Asean with the two other entrants, but its invitation was frozen after the recent coup. Page 12; Editorial comment, Page 11; Asean role in Cambodia, Page 4

Ulster talks setback: The UK government's proposals for decommissioning paramilitary arms in Northern Ireland have been rejected by Ulster's three main pro-British unionist parties in a vote at multi-party talks. The rejection jeopardises planned negotiations in September with Sinn Féin, the political wing of the IRA. Page 8

Simitis threatens EU expansion veto

Greek prime minister Costas Simitis says Greece has not ruled out vetoing European Union membership for countries in central and eastern Europe if Cyprus is excluded from the next wave of enlargement. Mr Simitis, left, added that Greece would still take maintain a firm line in its disputes with Turkey, notably over Cyprus and control of the Aegean Sea, while seeking to build on this month's Madrid agreement to avoid the use of force. Page 2; Thaw in Aegean, Page 10

Israeli budget cuts: Israel's government has agreed a Shk800m ($227m) cut in this year's budget, in spite of opposition from defence minister Yitzhak Mordechai, and four other ministers. The cut of 1.1 per cent hits all but three of the 18 ministries, and is intended to reduce the budget deficit to 2.8 per cent of GDP. Page 7

Baht hits new low: The Thai baht plunged to new historic low and other south-east Asian currencies also weakened ahead of an Asian central bankers' meeting. Page 4

Students face fee rise: UK college students – whose education is currently free – face annual tuition fees of around £1,000 from next year under proposals which, added to loans for living costs, would push the cost of a three-year degree course to around £8,000 ($13,360). Page 8

New Chinook crash probe: The cause of the 1994 Chinook helicopter crash in Scotland, which killed 25 of the UK's top intelligence experts, has been called into question. The new parliament's defence committee is to ask for more explanation of the air force verdict of pilot error. Page 8

Reuters profits dip: Plans by Reuters, the UK media and information group, to buy back up to £200m ($334m) of shares were overshadowed by a dip in half-year 3 per cent fall in pre-tax profits to £333m on sales 2 per cent lower at £1.4bn. Page 13; Lex, Page 12

Japan seeks new tourists: Japan hopes to double its number of overseas visitors to 7m by 2005. Although tourism in the East Asia-Pacific region has one of the world's fastest growth rates tourism to Japan is depressed, said the government. Page 4

UK economy booms: The UK's economy is fast reaching its capacity limits, according to new figures which show that retail spending has hit its highest level since the end of 1988. The figures helped push up the pound to an eight-year high against the D-Mark. Page 12 and Lex; German banking, Page 13

Lilly shares rise on new drug: Shares in Eli Lilly, the US pharmaceuticals company, have risen by 2 per cent despite the announcement of a second quarter loss. Investors welcomed news that regulators may soon approve for a new drug to treat osteoporosis. , and strong sales growth for other newly-launched drugs. Page 13

Prehistoric catastrophe : The Earth was struck by two massive asteroids or comets in quick succession 35 million years ago, according to new research by Canadian scientists. They believe the double blow may have altered the climate and led to the biggest mass extinction of life since the death of the dinosaurs.

FT.com: the FT web site provides online news, comment and analysis at http://www.FT.com

■ STOCK MARKET INDICES

New York lunchtime		
Dow Jones Ind Av	8109.96	(+48.31)
NASDAQ Composite	1570.17	(+8.31)
Europe and Far East		
CAC40	3003.53	(+82.40)
DAX	4406.09	(+175.67)
FTSE 100	4868.9	(+20.2)
Nikkei	20,130.51	(-26.51)

■ US LUNCHTIME RATES

Federal Funds	5¾%
3-mth Treas Bills: Yld	5.19%
Long Bond	102$\frac{11}{32}$
Yield	6.40%

■ OTHER RATES

UK: 3-mo Interbank	6$\frac{27}{32}$%	(7%)
UK: 10 yr Gilt	102$\frac{5}{32}$	(101$\frac{19}{32}$)
France: 10 yr OAT	101.06	(100.79)
Germany: 10 yr Bund	103.61	(103.44)
Japan: 10 yr JGB	105.707	(105.365)

■ NORTH SEA OIL (Argus)

Brent Dated	$18.59	(18.44)

■ GOLD

New York: Comex		
Jul	$323.3	(325.3)
London:		
close	$324.09	(328.00)

■ DOLLAR

New York: lunchtime		
£	1.678	
DM	1.830	
FFr	6.1806	
SFr	1.48765	
Y	115.75	
London:		
£	1.6812	(1.6767)
DM	1.8273	(1.8127)
FFr	6.1616	(6.1084)
SFr	1.4864	(1.4803)
Y	115.825	(115.615)
Tokyo close:	Y 115.5	

■ STERLING

DM	3.0720	(3.0394)

9 770174 736142 30

Crisis ends as US company satisfies Brussels' competition fears

Boeing gets merger approval

By Emma Tucker in Brussels, Michael Skapinker in London and Bruce Clark in Washington

Tha European Commission yesterday finally approved plans for a merger between Boeing and McDonnell Douglas, after eleventh hour concessions by Boeing satisfied Brussels' concerns about the effect of the deal on competition in the European market.

Announcing the decision – which ended five months of argument – Mr Karel Van Miert, the competition commissioner, called for closer EU-US co-operation on competition policy to avoid repetition of a crisis which took the two continents to the brink of a trade war.

An ebullient Mr Van Miert described the deal as "a vital battle" in terms of competition policy and said the conditions be had been striving for had largely been agreed.

These were a commitment by Boeing to make available licences and patents from McDonnell Douglas's military research programmes to rival firms; agreement to establish McDonnell Douglas's civilian operations as a separate legal entity inside Boeing; and a promise not to abuse its dominant position to influence the aircraft supplies sector.

Most importantly – as it was on this point that negotiations became deadlocked – Boeing agreed to drop the exclusivity clauses from 20-year supply deals it has signed with three US airlines, and not to sign any more such pacts for 10 more years.

Mr Philip Condit, Boeing's chairman, said: "We're very comfortable with the agreement that we've reached." But Airbus Industrie, the European consortium whose interests Mr Van Miert had been seeking to defend, said it regretted the "arrogant and confrontational attitude of the US in these discussions".

Airbus added: "The unnecessary tension could have been avoided had Boeing proposed true remedies to the contentious points raised by the Commission at the outset of these talks." Airbus said it would "vigilantly monitor" Boeing's conduct to ensure it adhered to the conditions agreed with the Commission.

The three US airlines said Boeing's decision to remove the exclusivity clauses would have no effect on their ordering policy. American, Continental and Delta airlines said they would go ahead with the Boeing purchases specified in their contracts. American, which has ordered more than 600 Boeings over the next 20 years, said: "We are quite satisfied with the fleet decisions we have made. We don't believe anything is going to change."

Mr Jacques Santer, president of the European Commission, congratulated Mr Van Miert for resisting strong pressure from across the Atlantic and said he rejected any accusations that Brussels had taken into account "other political interests" in its assessment of the deal.

He also announced that the Commission intended to launch an initiative in the autumn to strengthen the aerospace sector in Europe.

In Germany, Mr Günter

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Europe's pyrrbic victory and Observer, Page 11

European Union competition commissioner Karel Van Miert at a Brussels news conference yesterday Reuter

Stet avoids Helms-Burton sanctions

By Bruce Clark in Washington, Guy de Jonquières in London and Robert Graham in Rome

Stet, the Italian telecommunications group, has reached an understanding with the State Department and ITT, the US conglomerate, which is intended to shield Stet from sanctions under America's Helms-Burton anti-Cuba law.

The State Department indicated yesterday it was ready to waive the application of sanctions to Stet, after Stet agreed to compensate ITT for property confiscated by the Castro regime.

As one of the largest European investors in Cuba, Stet has been vulnerable to the penalties demanded by the Helms-Burton law against foreign companies "trafficking" in assets expropriated by the Castro regime.

The State Department warned several Stet executives some months ago that they could fall foul of Title IV of the act, which authorises the US to deny entry visas to executives, directors and shareholders of companies engaged in "trafficking".

ITT, which operated the Cnban telephone system before the Communist takeover, said it had negotiated a "moratorium" with Stet, under which it would not exercise its right under Title III of the act to sne the Italian group for dealing in the property.

No details were announced, but ITT is understood to have committed itself not to sue Stet for a 10-year period in return for an undisclosed payment.

Since Helms-Burton became law, President Bill Clinton has repeatedly waived the application of Title III, which permits individuals and companies to sue in US courts for compensation for expropriated Cuban assets.

However, Stet is believed to have negotiated the deal with ITT to avoid creating problems in the US for a proposed link-up between its Telecom Italia affiliate and AT&T, the US telecommunications company. AT&T plans several ventures with the Italian group and may take a stake in it once it is privatised in the autumn.

European Union officials said the Stet agreement would help to improve the atmosphere of negotiations with the United States, aimed at achieving a settlement of the bitter transatlantic dispute over Helms-Burton by mid-October.

But a spokesman for Senator

Continued on Page 12

UK retail sales up as spending spree continues

By Wolfgang Münchau and Robert Chote

Britain's consumer spending boom continued unabated in June, according to figures published yesterday. They show retail sales growing at levels not seen since the end of 1988.

The Office for National Statistics, the UK's statistical bureau, reported that the volume of retail sales went up 5.4 per cent year on year in June, the same rate as in May.

The figures belped raise the pound to an eight-year high against the D-Mark. The British currency closed in London at DM3.072. It was DM3.039 the previous day.

The latest surge in retail sales was almost entirely due to windfall gains from building societies (mutual savings banks). A few of the largest societies have converted themselves into joint stock companies recently and distributed free shares to members. The total value of these shares is estimated at £35bn ($58bn).

UK statisticians said yesterday the societies' new shareholders had tended to spend, rather than save, their gains.

The strong retail growth data shocked financial markets. Most analysts had expected retail spending growth to ease after May's increase.

Mr Adam Cole, UK economist at brokers HSBC James Capel, said: "With much more to come in terms of windfall-related spending, sales growth could easily burst through its late-1980s highs over the coming months."

Sterling's rise is being driven by expectations of further increases in UK short-term interest rates from the current benchmark rate of 6.75 per cent.

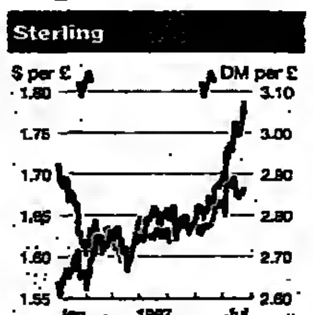
The newly independent Bank of England is expected to pnt up interest rates by at least another quarter point at the monetary committee meeting in August. Senior committee members are concerned the economy may be overheating.

But the strong currency presents a policy dilemma for the Bank of England, faced with a booming service economy and a depressed manufacturing sector.

The latest survey published yesterday by the British Chambers of Commerce confirmed sterling's strength was burting UK exporters.

Mr Eddie George, the governor of the Bank of England, said "the jury is still out" on whether the recent Budget was tight enough to put downward pressure on sterling.

Sterling



Source: Datastream/ICV

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Bank shares soar, Page 13

UK drinks groups take new look at LVMH proposals

By Ross Tieman

Grand Metropolitan and Guinness of the UK are prepared to reach a deal this year to combine their drinks businesses with that of French luxury goods group LVMH.

But agreement will only be achieved if the benefits are divided fairly among shareholders of the three groups, Mr John McGrath, GrandMet chief exeentive, sald yesterday.

"We are going to look at this very unemotionally on a factnal hasis," said Mr McGrath. Bnt any new deal "most demonstrate" that shareholders of Guinness and GrandMet would benefit.

Mr McGrath spoke after LVMH announced it had increased its stake in GrandMet from 6.4 per cent to 11.05 per cent, bnt redneed its Guinness holding from 14.2 per cent to 12.46. The company now holds enough shares in either company to call an emergency meeting of shareholders.

The GrandMet stake, acqnired at a cost of more tban £800m ($1.3bn), was bougbt as Mr Bernard Arnault, tbe LVMH chairman, songht to persuade Guinness and GrandMet to abandon their proposed £24bn merger.

Instead, be is pressing for them to combine their wines and spirits bnsinesses with LVMH brandy and champagne subsidiary Moët Hennessy in an £18.6bn gronp. He wants the remaining food, fast-food and brewing bnsinesses demerged.

The case for a demerger of the non-drinks businesses was yesterday vigorously rejected by Mr McGrath, who is chief-executive designate of GMG Brands, as the combined Guinness/GrandMet business would be called.

Despite claims by Mr Arnault that the businesses of GrandMet and Gninness are undervalued because of their

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NEWS: EUROPE

Brussels shoots down UK claims that threatened import ban carried the day in farm council

Credit for meat safety vote disputed

By Nell Buckley in Brussels and George Parker and Maggie Urry in London

European Commission officials yesterdey dispnted claims hy Britain that it deserved the credit for an EU decision to bring continental meat safety standards into line with the UK'e.

Farm ministers voted 8-7 on Tuesday night to endorse a Commission proposal that the parts of cattle believed to carry BSE, or mad cow disease, should be removed from the human and animal food chain in an effort to eradicate the condition.

Mr Tony Blair, UK prime minister, claimed his government had secured a deal which had eluded the previous Tory administration. He praised Mr Jack Cunningham, his agriculture minister, for his "patient negotiations with his EU counterparts".

Mr Cunningham had threatened to ban imports of beef from countries which did not match British standards, if the agriculture council voted against. The Yes vote, he said, had resulted because "Britain pressed for these controls to be put in place right across Europe".

Brussels officials, however, suggested privately that the same outcome could have been achieved through conventional diplomatic horse-trading. Mr Cunningham had merely hitched a ride on Commission proposals.

Similar measures were proposed last year by Mr Franz Fischler, the EU agriculture commissioner, but rejected by ministers in December. After gathering highly critical veterinary inspectioo reports, showing some countries in Europe were not meeting existing standards, Mr Fischler gained Commission backing in May to reintroduce the measures, before Mr Cunningham issued his threat. "The British threat didn't even cross people's minds. It was pretty irrelevant," said one EU official.

Mr Ian Gardiner, policy director of the UK's Netional Farmers' Union, said: "The Commission put this forward on the basis of scientific and technical advice. It had strong support from some countries like the UK, Ireland and France, but it was the Commission which had to bear the brunt of persuading the others."

The good news, he said, was that the council had moved on the basis of scientific advice. That should encourage it to accept a proposal to lift the export ban on British beef, which was also based on scientific grounds.

While discounting British claims for the credit, Brussels officials felt nevertheless that the new Labour government's approach was more constructive than that of its Conservative predecessor.

One difference was a well-defined set of objectives. "They have got a fairly clear idea of how they want to set about things, step by step," said one senior agriculture official. Another was an apparent willingness to work more closely with both the Commission and the Council of Ministers.

It is also prepared to make the right gestures. Last week Mr Cunningham appeared before the European Parliament's special BSE monitoring committee. Mr Douglas Hogg, the previous farm minister, had infuriated MEPs hy repeatedly refusing to appear.

"[Mr Cunningham's appearance] was symbolically very important," said Mrs Dagmar Roth-Behrendt, German Socialist chair of the committee. "For a British agriculture minister to appear in that arena for two hours and be applauded at the end was quite something."

Even Mr David Curry, the new UK shadow agriculture spokesman, praised Mr Cunningham, saying the council'e vote partly reflected Mr Cunningham's "constructive approach" towards the EU.

Olivetti ex-chief seeks plea bargain

By Robert Graham in Rome

Mr Carlo De Benedetti, the former chairman of Olivetti, the Italian information technology group, has proposed to plea bargain with Turin magistrates who have been investigating him for the last 10 months on charges of alleged insider trading.

News of tbe proposal leaked out yesterday from the Turin magistrates and was confirmed by a spokesman at Cir, the industrial holding company controlled by the De Benedetti family. The investigation was triggered by share trading at the end of August last year, just before Olivetti announced unexpectedly large losses for the first half of 1996.

A Cir spokesman said the plea bargaining was sub judice, and any decision would not he made by a judge for two months. If accepted, it would mean Mr De Benedetti would have to pay a fine in return for all proceedings being dropped.

The procedure also implies no formal guilt, thus Mr De Benedetti would not risk being barred from holding puhlic or company office. Plea bargaining also has the advantage of avoiding a court judgment that could affect Mr De Benedetti's legal position regarding the collapse of the Banco Ambrosiano.

A court of second instance reduced in 1996 a six-year sentence to four and a half years for the 1982 fraudulent bankruptcy of the hank. If the insider trading case had gone to court, under Italy's complex legal system he would have risked the original Banco Ambrosiano sentence being reinstated. He is also appealing this sentence.

On September 3 1996 Olivetti unveiled first-half losses of L440bn ($252m) – losses that led to Mr De Benedetti's resignation as group chairman. Just prior to this unsxpected announcement, Olivetti shares fell 9 per cent in two days of heavy trading. Consob, the stock exchange watchdog, set up an inquiry in part as a result of a statement made hy Mr Renzo Francescone, the Olivetti managing director, who had resigned in dieagreement over the group's accounts.

An investigation was then set in motion by Turin magistrates who questioned Mr De Benedetti, and a Turin-based stockbroking group allegedly involved in Olivetti share trading. Mr De Benedetti's son, Rodolfo, was also placed under investigation, but proceedings against him are likely to be dropped.

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Swiss bankers uncover more dormant accounts

Estimate of unclaimed foreign money is doubled to $41.6m

By William Hall in Zurich

Swiss banks have found more than twice as many dormant foreign bank accounts dsting back to the second world war than they thought they had less than 18 months ago.

They have also increased their estimates of how much foreign money lies unclaimed in their vaults hy more than 50 per cent to SFr61.2m ($41.6m).

Mr Kurt Hauri, chairman of the Swiss Banking Commission, said yesterday that 67 of more than 400 Swiss banks had reported a total of 1,785 bank accounts dormant since 1945.

This is more than donble tbe 775 dormant hank accounts, totalling SFr38.7m, that were reported hy 51 Swiss banks in the last official survey in February 1996.

The latest revelations will increase the embarrassment of the big Swiss hanks, which have been accused of hlocking attempts hy Holocaust survivors and others to regain their money.

A large part of the latest increase was due to a technical oversight at Swiss Bank Corporation, the smallest of the "big three" banks, which bad not programmed its computers properly to identify accounts opened before May 1945.

Yesterday's reveletions came as the Swiss Bankers Association, the Swiss Banking Commission and Mr Paul Volcker, the former US Federal Reserve chairman who heads the investigation into dormant Swiss bank accounts, outlined plans to contact the rightful overseas owners of dormant Swiss bank accounts.

Two Russian Jews in Moscow's Central Synagogue study names on the dormant eccount list Reuter

Names of eccount bolders have been listed in newspaper adverts in 28 countries, information kits are being distrihuted in 13 different languages, and would-he claimants are urged to contact toll-free telephone numbers in most of the 28 countries for advice on how to make a claim.

Until recently the Swiss banks cbarged SFr300 to research each individual claim. Now the Swiss banks have promised to underwrite the whole exercise and the advertising campaign alone is estimated to cost SFr5m.

The need for the letest campaign is underlined by a glance at some of the names in the published list, which range from a male voice choir in Germany to Prince Hermann zur Lippe and a delegation from Japan.

Mr Georg Krayer, chairman of the Swiss Bankers Association, said yesterdey that he could not understand why the banks had not made more of an attempt to contact the account holders before.

"I have not been ahle to find any fig leaf big enough to cover up my colleagues' negligence," said Mr Krayer.

SBC said yesterday that when it began to investigate dormant assets manually it became clear that the date recorded electronically was not always indicative of the establishment of the client relationship. As a result it had revised upwards its estimate of its dormant accounts from SFr11.4m to SFr27.3m.

Swiss banks will pnblish a list of an estimated 20,000 dormant Swiss hank accounts dating back to the second world war in October. The sums of money involved are understood to be far less than the SFr60m in foreign accounts. However, many of these accounts may have been opened hy intermediaries who were acting on bebalf of overseas clients.

Bonn approves finance bill

By Peter Norman in Bonn

The German cabinet yesterday approved e wide-ranging draft law to deregulate the market for risk capital and enhance the international competitiveness of the country's stock markets and financial centres.

The 451-page "third financial market promotion law" encompasses more than 100 measures which have been the subject of intense discussion between the finance ministry and the financial services industry for more than a year. A revision in yesterdey's draft will give foreign companies more freedom to issue prospectuses in languages other than German to encourage them to list their securities on German stock markets.

Mr Theo Waigel, finance minister, said the bill, which Bonn hopes will become law before the end of this year, was a "central component" of the government's supply-side programme for more investment and jobs. He said it would strengthen Germany's financial sector in readiness for the euro, the planned European single currency.

To pass parliament, the bill will need the approval of the Bundesrat, the second chamber of the Bonn parliament controlled by the opposition Social Democratic party. The SPD yesterday had no comment to make on the bill.

The finance ministry said the planned law would make more risk capital available for medium-sized companies and for small, new innovative firms in growth sectors, as well as lower the cost of raising funds through the stock market. It would also open up new activities for financial services companies and stock exchanges and improve conditions for carrying out existing business.

The legislation will reform laws covering stock markets, investment funds and holding companies. It will make it easier for companies to access capital markets, modernise investor protection, improve the international competitiveness of German investment funds, give encouragement to equities and derivatives trading, and encourage more private provision for old age through targeted pension funds.

● The cabinet approved e bill of Mr Klaus Töpfer, housing minister, to curtail subsidies in the publicly supported housing sector and raise housing costs for wealthier tenants. Parliamentary approval for tha plans appeared bleak after protests from property owners, tenants' groups, opposition parties and the federal states and local authorities.

Greece in EU veto threat if entry of Cyprus is blocked

By Edward Mortimer and Kerin Hope in Athens

Greece refused yesterday to rule out vetoing European Union membership for applicant countries in central and eastern Europe, if Cyprus is excluded from the next wave of enlargement.

In an interview with the Financial Times, Mr Costas Simitis, Greek prime minister, also rejected Turkish threats to derail talks on a Cyprus settlement if the EU goes ahead with eccession negotiations with the Greek Cypriot government. The negotiations are due to start early in 1998.

Mr Simitis insisted that tbe eccession talks should continue "in parallel" with efforts to reunite the divided island.

He said be hoped it would not be necessary for Greece to veto EU membership for former Communist countries, since the lengthy accession procedure would leave considerable time to work out a political solution.

But if in the end other EU members sought to block Cyprus'e inclusion, on the grounds that it was still divided, "Greece will use all measuree offered in the framework of the European Union to achieve what it considers to be right," he said.

'The accession talks should continue in parallel with efforts to reunite the divided island'

Mr Simitis said thet Greece would maintain a firm line in its disputes with Turkey, notably over Cyprus and control of the Aegean Sea, while seeking to build on this month's Madrid agreement to avoid the use or threat of force.

Mr Simitis insisted that Turkey still had to withdraw its claims on Greek territory in the Aegean, or submit them to the World Court, before e direct dialogue on otber issues could proceed.

On a more conciliatory note, Mr Simitis for the first time signalled that experts appointed by both sides to sort out procedural problems would meet face to face in September and not be confined to exchanging documents.

The four "wise men" were chosen in May after EU mediation.

Hopes were raised for a settlement of Greek-Turkish disputes, including the Cyprus problem, after meetings this month between Mr Simitis and President Süleyman Demirel of Turkey and between leaders of the two Cypriot communities et Troutbeck, New York.

But the atmosphere has been soured by statements made in Cyprus at the weekend when Mr Bulent Ecevit, Turkey's deputy prime minister, joined Mr Rauf Denktaş, the Turkish Cypriot leader, to celebrate the 23rd anniversary of Turkey'e military intervention on the island.

The two leaders warned that Turkey would proceed with gradual integration of northern Cyprus with the Turkish mainland if the EU persisted in negotiating membership with the purely Greek Cypriot administration in the south.

Thaw in Aegean, Page 10

President of Yugoslavia begins term with clampdown on TV and radio stations

Milosevic promises 'peace and progress'

By Tony Barber in London

Mr Slobodan Milosevic, the Serbian leader who has presided over some of the greatest setbacks in his nation's history, was sworn in yesterday as president of the federal state of Yugoslavia, which comprises Serbia and Montenegro.

Speaking to the federal parliament, Mr Milosevic, 55, promised that his four-year term would be an era of "peace, progress and prosperity".

His words rang hollow to domestic critics who pointed out that he had warmed up for the big occasion by closing down six independent radio stations and two television channels last weekend.

Mr Milosevic, who came to power in Belgrade in 1987, took over the Yugoslav presidency largely as a way of prolonging his domination of the Serbian political scene. The Serbian constitution barred him from serving a third term as president of Serbia, hut Mr Milosevic has yet to betray any readiness to relinquish power voluntarily.

Last winter, when crowds of up to 150,000 pro-democracy demonstrators were jamming central Belgrade every day and demanding his resignation, it appeared that Mr Milosevic might be in danger of having his crown forcibly removed. Yet by biding his time and exploiting the internal divisions of the Serbian opposition, he rode out the crisis.

It was not the first time that Mr Milosevic had displayed an extraordinary capacity for survival. Even the calamitous 1991-95 wars of the Yugoslav succession, for whose outhreak many Balkan experts hold him largely responsihle, could not shake his grip on power.

Mr Milosevic enticed the Serbs into war in Croatia and Bosnia with the prospect that, after Communist Yugoslavia's dissolution, all Serbs would live in a single, enlarged Serbian state.

However, the wars ended with the Bosnian Serbs pounded into submission hy Nato and with the Krajina Serbs of Croatia fleeing from their ancestral homes under the shadow of conquering Croatian armies.

It was one of the most terrible episodes in the long history of the Serbs, comparable in the view of Mr Milosevic's opponents to the defeat suffered at Ottoman Turkish hands at the battle of Kosovo Polje in 1389.

For Serbia, the war also brought world record hyperinflation, United Nations-imposed economic sanctions, exclusion from some international organisations and sports events, and a collapse in per capita gross domestic product to 59 per cent of its level in 1989.

Mr Milosevic told parliament yesterday that he had great plans for the next four years.

"We are launching a project of material and spiritual renewal and recovery of society as a whole – the economy, technology, the state, education, media, villages and towns, roads and hridges, hospitals and schools," he said.

EUROPEAN NEWS DIGEST

Turkish alarm bell stifled

Turkey's economy minister yesterday retracted his warning that inflation could hit 100 per cent this year, considerably higher than his earlier estimate of 80-85 per cent. Mr Güneş Taner, appointed only three weeks ago, had increased his estimate from the previous government's target of 57.7 per cent.

He only backtracked after nervous financial markets had closed. During the day, everage share prices tumbled 1.7 per cent and yields on treasury bills rose to 120 per cent from 111 per cent. However, the currency weakened only slightly.

Global Securities, a big Istanbul brokerage, speculated that Mr Taner was preparing for a tough deflation policy next year by allowing prices to rise sharply now, letting the overheated economy cool off before introducing reforms that would deliver a benign economic environment prior to next year's elections.

Other analysts argued that Mr Taner's remarks were simply a sign of poor judgment which had cost him credibility in the markets and the business community. *John Barham, Ankara*

■ RUSSIA'S MILITARY

Navy chief announces cuts

The Russian navy is to cut its personnel by some 30,000 by next year and take outdated ships out of service, Admiral Feliks Gromov, its commander-in-chief, announced yesterday in Vladivostok. At the same time, it will make every effort to introduce new ships and equipment and maintain its technological level, he said. Russia'e armed forces have been hit hard hy a chronic lack of funds because of the country's economic crisis.

Recent figures indicate the navy has some 320,000 personnel, of whom 200,000 are conscripts.

President Boris Yeltsin has called for a sharp reduction in the size of the military and for conscription to end.

In en interview in the latest issue of Moscow weekly Argument-i-Fakty, Mr Igor Sergeyev, the defence minister, said it was planned to reduce the number of senior officers in the army from 1,925 to 1,400 next year, and eventually to 1,200. Total armed forces would be cut from 1.8m to 1.5m by 1998, and to 1.2m the following year. Mr Sergeyev said he expected a 1m-strong army eventually.

Mr Yeltsin yesterday ordered the sale of thousands of stores, restaurants, sports centres and other loss-making facilities belonging to the armed forces in an effort to raise cash for unpaid wages, according to the Itar-Tass news agency. *Charles Clover and agencies, Moscow*

■ IMF MISSION IN KIEV

Ukraine expects standby loan

The International Monetary Fund will approve a $750m one-year standby loan for Ukraine in the near future, according to Mr Anatoly Galchinsky, deputy head of the presidential administration. "There will be a one-year standby loan, which will cover the second half of this year and the first half of next, worth $750m," he said yesterday.

An IMF mission is in Kiev this week completing talks on the deal. Ukrainian officials said they expected the team to recommend that the loan be released next month. It is less than a month since the IMF said Ukraine was not ready, because of slow progress on reforms, to meet the conditions of a three-year loan deal worth $2.5bn-$3bn agreed late last year.

Ukrainian officials have said they hope the standby will be followed in early 1998 by a new long-term loan, but Mr Galchinsky's comments yesterday suggest that credit will not come until the second half of next year. *AP, Kiev*

■ SICILIAN MAFIA

Former top judge accused

Prosecutors in the Sicilian capital Palermo said yesterday that they wanted to put a former senior judge on trial for alleged links with the Mafia. They claimed in e 1,000-page report that Mr Corrado Carnevale, once e member of the Court of Cassation, Italy's highest court, should be tried for complicity with the Sicilian Mafia.

The document, submitted to an examining magistrate who will decide whether there is a case to pursue, contained details of several court cases allegedly "adjusted" in the Mafia's favour. It also included evidence from 12 ex-Mafiosi who have turned state's evidence.

Mafia cases were at one time regularly assigned to the first section of the Court of Cassation, over which Mr Carnevale presided, and the former judge earned the name "verdict killer" for the number of convictions he quashed on technicalities. He is best known for freeing Mafia godfather Michele Greco from jail in 1991 and quashing life sentences on two lesser Mafia bosses convicted by a lower court of bombing a Naples-Milan express train in 1984. *Reuter, Palermo*

■ ALBANIAN POLITICS

Berisha announces resignation

Albania's President Sali Berisha (left) yesterday announced his resignation, fulfilling a pre-election promise and clearing the way for his Socialist opponents to try to bring the anarchy in the country to an end. Mr Berisha announced his resignation in a radio broadcast shortly before a new Socialist-dominated parliament convened. He will remain in parliament as head of a weakened Democratic party, which previously dominated the country, and said he would fight for a free-market system and Albania's acceptance into western defence and economic organisations. He and his party suffered a huge loss of popularity because of the perception that they had profited from pyramid investment schemes which collapsed early this year, taking the savings of many Albanians. *AP, Tirana*

■ HUNGARY-ROMANIA RELATIONS

Consulate reopens in Cluj

Hungary yesterday signalled improved bilateral relations with Romania hy reopening a consulate in Cluj closed down by the late Communist dictator Nicolae Ceausescu nine years ago. However, the event was marred by Romanian nationalists who telephoned death threats to Mr Victor Ciorbea, the country's prime minister, accusing him of giving too many rights to Romania's 1.7m ethnic Hungarians.

Once a trilingual city with many native German speakers, Cluj now has a population of 330,000, about a quarter of whom are ethnic Hungarians. It is located some 200 miles northwest of Bucharest, in Transylvania, where most of the ethnic Hungarians live. *AP, Cluj*

هكذا من الأصل

Private enterprise blooms in a bleak environment

In the last of three reports from eastern Ukraine, **Chrystia Freeland** reports on how a region once synonymous with Stalinist industrialisation is proving attractive to foreign investment

Luhansk, a gritty industrial city in the Donbas region of eastern Ukraine, is hardly a popular venue for foreign investment. The collapse of the local economy based on coal mining and heavy industry has pushed the area into a depression which is bleak even by former Soviet standards. Street lighting and hot water hava become luxuries and the city pavements are lined with underemployed workers seeking to supplement meagre incomes by selling a few bars of soap or a couple of cheap dresses.

In this seemingly hostile climate, however, a small British-Ukrainian joint venture called Britanica, which makes telephones and sells a wide range of consumer goods, has prospered. Last year it manufactured 210,000 phones and made a $608,000m profit. Founded in 1994, it has grown from five employees to 300 and created a network of 17 regional service and distribution centres across Ukraine and Russia.

Britanica's success, and its anthuaiastic expansion plans, are part of an important, but widely overlooked, trend. At a time when large corporations are shying away from making direct investments in the former Soviet Union, thousands of brave adventurers such as Mr Robert Tyldesley, one of Britanica's founders, are seeking and finding their fortunes in Europe's new frontier. Their entrepreneurial spirit, and the energetic contributions of their local partners, are the best hope these sad Slavic lands have of emerging from the doldrums.

"I think the advantage wa've got here is purely that we've had the courage, the guts to get off our backsides," says Mr Alfred Gooding, chairman of Big Tree Products, a British manufacturer of heating and domestic products. "I think that if we can make this venture a success, we could get 50 other firms coming out to work here."

Britanica'a founders, who are boping this year to expand into the production and sale of electric kettles and small domestic and water heaters, see a tremendous business opportunity in Ukraine because of the country's combination of low labour costs and huge market for consumer goods.

To tap into that market of 50m people, Mr Ihor Sedykh, tha company's Ukrainian partner, believes it is crucial to convince Ukrainian consumers, made sceptical by 70 years of shoddy Soviet goods, that they are boying a quality product. When Britanlca talephones ware launched in Luhansk, be proved that point by holding his telephones out at arm'a length and dropping them.

"A Soviet telephone would have broken into dozens of pieces, but nurs didn't," says Mr Sedykh, a former senior manager at a local armaments factory producing ammunition for Kalashnikov machine guns. "It might seem vulgar, but it was a trick which really helped us to show bow our telephones were different."

Another key step, according to Mr Tyldesley, has been tha creation of an extensive, commission-only sales team. Like other companies, including the international cosmetics giants whose business is booming in the former Soviet Union, Britanica has discovered that the elaborate friendship networks which were vital for survival under communism are useful engines of capitalism. Britanica sales agents peddle their wares to their chums, go door to door in their dingy Soviet apartment blocks, and visit local shops at least once a week to see if they need new stock.

But, while Britanica's partners are full of praise for the ingenuity and endurance of their sales staff, they have nothing but scorn for Ukraine'a meddlesome bureaucracy, whose interference they say is the biggest bar to doing business in the Donbas.

"The biggest problem is connected with bureaucracy. It is very draining, and ooe of the most difficult things is that major new hurdles just suddenly appear," complains Mr Tyldesley, who is the only resident foreign businessman in a bundred-mile radius.

Their greatest problem is Ukraine's cumbersome product certificatioo system, full of pitfalls which serve to enrich the country's underpaid civil servants but act as a powerful brake on the economy.

Even so, some traditional obstacles to doing business seem to be vanishing as this impoverished regioo realises that new investment is the only way to stimulate the dying economy of the Donbas. For example, in spite of Ukraine's national reputation for laggardly privatisation, when Britanica set out to buy a factory this spring to expand its productioo facilities, it proved surprisingly easy.

"We realised that there was virtually any number of factory directors who would come to us and say, 'If you can bring jobs, you can have the factory'," recalls Mr Tyldesley.

This open-armed welcome to foreign investors is not what one would expect of the "red" Donbas, which long prided itself on its role as one of the engines of Stalin's industrialisation drive. But, as a few bold small-scale investors are discovering, six years after the collapse of the Soviet Union, even some of the bleakest corners of the former Communist monolith are suddenly open for business.

Previous articles appeared on July 7 and 23

Central European floods

Kohl cabinet clears aid for stricken areas

By Peter Norman in Bonn

Chancellor Helmut Kohl's cabinet approved emergency support measures yesterday for flood victims in eastern Germany after the first dyke broke on the German bank of the River Oder.

In Poland, where more than 500 communities were still under water, river authorities said tha Oder flood wave was heading towards the southwestern city of Opole and was likely to inundate a residential estate at Wroclaw, a short distance to the north.

New floods were also expected near the Warta river, which merges with the Oder at the border town of Kostrzyn, north of the threatened German city of Frankfurt an der Oder. Polish authorities revised the official death toll from three weeks of flooding in Poland down from 60 to 55.

Following Mr Kohl's visit on Tuesday to the crisis region around Frankfurt, the German cabinet approved DM20m ($11m) of emergency assistance and announced that Kreditanstalt für Wiederaufbau, the state-owned development bank, would provide DM200m in credits at half the market interest rate to cover damages.

Mr Theo Waigel, the Bonn finance minister, will open talks with the Brandenburg state authorities on special tax reliefs for flood victims, while Mr Matthias Wissmann, the transport minister, was instructed to begin discussions with the state on repairing damaged bridges, roads and dykes.

The decisions came after the River Oder burst through a dyke on its west bank at Brieskow-Finkenheerd, a few kilometres south of Frankfurt. Army helicopters dropped giant sandbags into the gap in vain.

The hole in the riverside defences rapidly widened to 250m and water flooded at a rate of 500 cubic metres per second into a surrounding low-lying area 60km square.

The authorities ordered the evacuation of more than 2,000 people from nearby villages, but many refused to move for fear of looting. Others who had been evacuated on Tuesday quickly returned to their homes.

In Frankfurt, the waters were one centimetre above the level of the record flood of 1930 and reached the highest level since records began in the 18th century.

It was unclear yesterday whether the crisis would worsen. While glorious summer weather in the Frankfurt area held out the hope of a respite from the floods, Mr Alwin Ziel, the interior minister of Brandenburg, warned that the river would continue to rise.

The defence ministry reported that troops were working around the clock to strengthen the river bank with sandbags. A further 5,400 were available to help.

Czechs to put three banks up for sale

By Anatol Lieven in London

The Czech finance minister, Mr Ivan Pilip, announced yesterday that ha would submit a plan for the sale of three of the country's four largest commercial banks on August 20.

Tha weakness of the Czech financial sector has been identified as an important factor in the country's economic difficulties, and a sale to western banks – though nnt yet guaranteed – would be one of the most significant steps to date in the reform process. The government will be seeking to sell its controlling stakes in Komercni Bank, Sporitelna Bank and CSOB Bank. All three have been audited by the six biggest international auditing companies.

Analysts caution, however, that the privatisation process may be a difficult one. A 15 per cent stake in Komercni and approximately one third in CSOB are held by the Slovak National Property Fund as a resnlt of the "velvet divnrce" between the two countries.

The Slovak side is understood to be willing in principle to sell its share, but is seeking to link its agreement to Czech concessions concerning disputed shared assets. Mr Pilip said he expected negotiations with the Slovak Property Fund to begin soon.

Mr Pilip's statement appears to represent a defeat for tha Czech state bank, which has been pressing for a merger between CSOB and Sporitelna to take place before the banks are privatised. This would have created a more attractive prospect for western buyers. Some 34 per cent of Komercni Bank's assets are currently non-performing, with lesser figures for the other two. Floods on top of this year's economic crisis, have put pressure on Czech industries, and there are fears that this proportion could increase.

The Czech government has been discussing bank privatisation for several years, bnt Mr Miroslav Nosal, head of research at Patria Finance, said that Mr Pilip had brought a new determination to the task owing to the economic crisis. He added, however, that there would probably be opposition from other ministries and some of the banks themselves.

It is not clear whether the government has really made up its mind to follow the pattern of neighbouring Hungary and sell its entire stake in the banks to foreign strategic investors.

The sale of the Czech Republic's second largest bank, IPB, was held up in May when its head and his deputy were arrested and charged with fraud. IPB has been sold to Nomura, and the government has promised that the deal will go ahead in the coming weeks.

Austrian budgets set nation on target for Emu

Austria'a finance minister, Mr Rudolf Edlinger, will today present parliament with budgets for the next two years that are in line with the convergence criteria for the planned single European currency, writes Eric Frey in Vienna.

According to Mr Edlinger's forecasts, the federal budget deficit as a percentage of gross domestic product will slide from 2.7 per cent this year to 2.6 per cent next year and will stay there in 1999.

Even including a deficit of 0.3 per cent of GDP by the federal states and the communes, Austria would remain below the 3 per cent threshold stipulated in the Maastricht treaty. With low inflation and a total debt burden that is gradually falling to the 60 per cent limit, Austria would therefore be poised to meet all the criteria for joining Emu in 1999.

Mr Edlinger's forecasts assume economic growth will rise from 1.4 per cent this year to 2.9 in 1998. This sbould allow the government to increase its absolnte deficit from Scb67bn ($5.3bn) in 1988 to Scb70bn in the following year, while keeping it steady as a share of GDP.

The budget plans inclnde more spending for crime prevention, edncation and social security, bnt keep capital investment spending relatively low.

The coalition government made a last-minnte effort yesterday to reach agreement on a comprehensive pension reform that should be presented together with the budget. Bnt wide differences remaioed between tbe Social Democrats, who want part-time earnings subject to payments into the federal pension scheme, and the conservative People's party, which fears job losses from such a measure.

Regional currencies slip as hopes centre on Asian central bankers' meeting tomorrow

Baht at historic low as slide continues

By James Kynge in Kuala Lumpur and William Barnes in Bangkok

The Thai baht plunged to an historic low and other south-east Asian currencles also weakened yesterday, as thoughts turned to whether an Asian central bankers' meeting tomorrow might restore stability to the region's markets.

The baht ended in Bangkok at Bt32.40 against the US dollar, down from Bt30.95 on Tuesday and well below the Bt26 level at which the central bank had pegged the currency before it was forced to float it on on July 2.

The Thai currency was principally undermined by its own weakness yesterday as Thai-based corporations, estimated to have a total of US$60bn in unhedged foreign debt, were forced to buy dollars to protect themselves against further declines in the currency.

Dealers said yesterday's trade appeared to be driven by genuine commercial demand, and not speculative activity. Poor first-half earnings reported by local banks and finance companies contributed to the baht's weakness, economists said.

The Thai central bank appeared to intervena aligbtly yesterday after failing to protect the baht at Bt30 last week. A consensus exists that the Bank of Thailand no longer has the reserves to do much more than "smooth the baht's decline".

Similar assumptions are being applied to the central banks of the Philippines and Malaysia, which this week announced its reserves had fallen by M$8.8bn ($3.3bn) during a bruising battle with speculators in the first 15 days of this month.

Against this backdrop, Asian central bankers are expected to be eager to find ways to snpport south-east Asia's beleaguered currencies when they meet in Shanghai tomorrow.

Economists, however, said that market expectations of a commitment to concerted central bank intervention may be overblown. It might be rash to hope for more than a strongly-worded communiqué on the need to restore stability, the economists added.

"The meeting will probably have a calming effect on the [south-east Asian] currencies," said Mr Kobus van der Wath, bead of treasury economics at Standard Chartered Bank in Singapore.

Countries to be represented at tbe meeting, whicb some have dubbed a "sort of Asian Group of Seven", include Japan, Hong Kong, Singapore, Malaysia, the Philippines, Thailand, Australia, New Zealand, South Korea, China and Indonesia.

Elsewhere in south-east Asia, currencies continued to slide yesterday. The Singapore dollar fell to a low of about S$1.4690 from S$1.4645 after comments by Mr Richard Hu, finance minister, which appeared to suggest that Singapore would allow market forces to decide its currency's value.

The Malaysian dollar, or ringgit, was hit by offshore selling following news that the reserves of Bank Negara, the central bank, had plunged. The ringgit was trading at M$2.6355/85 to the US dollar, compared with M$2.6230 earlier in the day.

The Indonesian rupiah remained weak after being dragged down by the fall in the baht. In late trade, the rupiah was at 2,597 against an opening price of 2,570. The Philippine peso fell on commercial demand for dollars, closing at 28.50 to the US dollar against 28.15 previously.

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Fear grips Philippines 'kidnap capital'

Clashes with Islamic rebels are dealing death blows to Cotabato's hopes of economic recovery

Mr Pacifico Cbua, owner of tbe Pacific Heights Hotel in the southern Philippine city of Cotabato, likes drinking tequila. After a few glasses, be will tell you all about the kidnapping scourge which has swept the town and hit local business this year.

"Before these kidnappings, my hotel was always full and I used to send customers to other hotels," be says. "Now, if there are no kidnappings or killings one day, that's news. Every businessman here gives money to the Islamic rebel groups, the MNLF or MILF, for protection. If I want to buy building materials, they cost 20-30 per cent more here. Why? Because everyone's paying protection money."

In April, his sales fell 20 per cent; in May they tumbled a further 50 per cent and June promises to be no better, he says. Staff have been cut from 28 to 21 and there are plans to shed another five shortly.

Cotabato is a charmless place among the rolling green hectares of some of the most fertile land in the archipelago. In the heart of Moslem Mindanao, the city is also at the epicentre of the violence which has held back the region's developmeot ever since Spanisb conquistadors trounced the Moslem sultanates in the 16th and 17th centuries.

Today, tbe destructive combination of kidnappings and military confrontations between the government's armed forces and secessionist Islamic rebels are dealing death blows to the city's bopes of economic recovery.

Mr Chua is a Chinese-Filipino businessman, by definition a prime target for kidnappers. Ethnic Chinese businessmen bave become particular victims because they are the most affluent members of the community.

Mr Chua's former regulars were involved in companies selling hardware, car supplies, agricultural products and clothes. Equally tempting is their tendency to be extremely discreet in terms of reporting kidnappings to the authorities.

The reluctance to use official channels is simply a reflection of the fact that, apart from the Islamic rebels who play havoc with Moslem Mindanao's peace and order, the other main perpetrators of kidnappings are said to be members of the armed forces and the Philippine National Police (PNP). Earlier this year, a Manila newspaper published a list of 87 policemen and 27 soldiers whom it said were part of professional kidnapping syndlcates.

"Cotabato City has become the kidnapping capital of the Philippines; the Chinese community is being plagued by an unprecedented epidemic," said a western diplomat.

"In a sense, the government is the victim of its own success, having scared the gangs out of Manila back to their home town of Cotabato. We are advising our people not to travel there for anything other than short, essential trips."

Ever the pragmatist, Mr Chua has cordial relations with the Moro Islamic Liberation Front, the main Moslem rebel group, which also has a reputation for kidnapping, and be deliberately does not fraternise with the armed forces. But he is still not leaving anything to chance.

A hidden closed circuit television camera, almost unprecedented for a small provincial hotel, monitors all vehicles and visitors at the heavily protected entrance. Above the perimeter wall, 6ft of extra fencing is designed to deter the more athletic intruder. Inside the compound, a security guard provides the final line of resistance.

Pacifico Chua: 'Everyone's paying protection money' Reuter

Such precautions might seem like paranoia but according to the military's figures, 36 kidnappings have occurred this year; given the widespread lack of reporting, everyone believes the true figure is far higher.

In May, after intense lobbying by ethnic Chinese businessmen desperate for an end to the climate of fear, the military took over anti-kidnapping responsibilities in Cotabato from the PNP, a move which alarmed many in a country still smarting from almost two decades of martial law under the dictator Ferdinand Marcos.

Critics accuse the armed forces of a beavy-handed approach to the problem but a spokesman for the 6th Infantry Division of the Philippine army based in tbe city argues the army is the logical choice.

"The kidnapping business here is being waged by the MILF, a big rebel force with high-power firearms," be says. "The PNP is totally inadequate to carry out the objectives of totally destroying the kidnappers."

The military claims It has reduced kidnappings, but for men like Mr Chua the problem has not disappeared. After more teqnila, be becomes confiding.

"I'm worried about my children," he says. "I sent two to Manila and one to Canada. You think they can handle this place? As for me, I don't like it here, but I'll die in this city because I know how to make money here."

Justin Marozzi

Hun Sen agrees to Asean role in Cambodia

By Ted Bardacke in Kuala Lumpur

The Cambodian leader, Mr Hun Sen, has reversed course and accepted a mediating role for the Association of South-East Asian Nations (Asean) in restoring stability to his troubled country, the Malaysian foreign minister said yesterday.

Mr Abdullah Ahmad Badawi said Asean believed the two-party coalition which emerged from the 1993 UN-sponsored elections and was toppled earlier this month in a coup led by Mr Hun Sen, the "second" prime minister, should be restored. He also said that Asean still recognised ousted Prince Norodom Ranariddh as "first" prime minister.

But Asean has also moved away from its idea of creating a caretaker government in Cambodia to oversee elections scbeduled for next May. Mr Badawi said Asean was ready to accept a replacement for Prince Ranariddh if that person were chosen according to the Cambodian constitution.

Mr Hun Sen has said he plans to convene a session of the National Assembly as early as next week to depose Prince Ranariddh and replace him with Mr Ung Huot, the foreign minister and a member of the prince's royalist party.

"So long as they do everything constitutionally in accordance to the process I snppose we have to recognise that," said Mr Badawi. "It could be anybody.

Mr Badawi was speaking after the foreign ministers of Indonesia, Philippines and Thailand, wbo are co-ordinating Asean efforts on Cambodia, met Mr Ung Huot on the sidelines of Asean's annual ministerial meeting. Cambodia was scbeduled to be admitted to tbe group with Burma and Laos yesterday but its admission was delayed indefinitely in the wake of the coup.

The move comes amid a flurry of diplomatic activity over Cambodia. Mr Stephen Solarz, the US envoy, met Mr Badawi earlier in the day and is to meet Mr Hun Sen and Prince Ranariddh in the next few days. Mr Solarz said be supported Asean'a efforts but reiterated the US position that Prince Ranariddh sbould not be replaced.

Asean's flexibility with regards to Prince Ranariddh is closer to the position of Japan, Cambodia's biggest foreign aid donor and a country Mr Hun Sen needs to court. On Tuesday Japan said it might recognise Mr Ung Huot, against US wishes.

Mr Badawi said Asean's desire to take a mediating role in Cambodia was "not because we want to interfere but we think we sbould help this country because finally we want it to become a member of Asean".

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Bonus shift for Japan bureaucrats

By Gillian Tett in Tokyo

After decades of running a tightly regimented bureaucracy, Japan is abont to inject a new hint of individualism. The National Personnel Authority (NPA), the pnblic-sector pay body, plans to change the pay system to award bonuses more on merit than rank and age.

The move comes after a rough year for the bureaucrats: they used to be held in high esteem, bnt their reputation has been attacked in tbe Japanese press because of a bost of bribery scandals.

The NPA's move reflects a broader wind of change in Japan. Pay has traditionally been decided according to seniority, bnt companies such as International Bank of Japan and Daiwa Securities are now considering introducing more merit-based systems.

Others, sneb as Toyota, plan stock option systems as anothar way of rewarding individual initiative.

Japan's 1.16m civil servants bave traditionally been relatively low-paid compared with many company employees. Their average monthly salary ia Y324,091 ($2,810); even the higbest ranked official at the Finance Ministry receives basic pay of Y592,800 a month.

But civil service jobs have other perks. Thcy are secure: no major cuts have occurred in public-sector employment in recent years; they carry benefits such as travel allowances.

Also, civil servants have traditionally received two hefty bonuses: last year, these amounted to almost half a year's pay, with a tiny variation for merit. Now the NPA wants to make the bonus more flexible to enconrage individnal achievement: next year, it wants amployees who perform well to receive an extra 6.4 months' pay; those who perform not so well will only get 5.2 months' worth.

Another fringe benefit is also under threat. Japan's top civil servanta have boosted their earnings at careers-end by moving to lucrative jobs in private companies: a practice known as *amakudari* – "descent from heaven".

But some ministries are cutting back this practice; in fiscal 1996 it applied to only 134 officials, against 318 in 1987. At the Finance Ministry, numbers fell from 44 in fiscal 1995 to 18 last year.

Australia CPI falls 0.2%

By Bruce Jacques in Sydney

Australia has recorded its lowest annual inflation rate for more than half a decade, with a recent string of interest rate cuts leading to negative growth in the latest quarter.

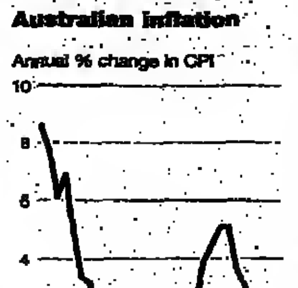
Australian Bureau of Statistics' figures released yesterday showed the Consumer Price Index, CPI, fell 0.2 per cent in the June quarter compared with a 0.2 per cent rise in the previous quarter.

That brought CPI growth for the June year to 0.3 per cent compared with 1.3 per cent for the previous year, bolstering analysts' predictions that the Reserve Bank will again cut official interest rates as early as this week.

It would be the fifth consecutive cut by the Reserve Bank. But any decision will also be influenced by official wage growth numbers for tbe May quarter, due for release today.

Australian inflation

Annual % change in CPI



Source: Datastream/ICV

Yesterday's figures also showed that the underlying inflation rate, on which the Reserve Bank and Treasury focus, rose by 0.3 per ceot in the June quarter against 0.4 per cent in the previous quarter. The annual underlying inflation rate fell to 1.7 per cent from the previous year's 2 per cent – the lowest since figures were first compiled in this form in 1972. The rate is also well within the Reserve Bank's stated targets.

The headline inflation figures were driven by four consecutive 0.5 per cent interest rate cuts implemented by the Reserve Bank since late last year. These contributed to an 8.8 per cent fall in annual housing costs, offsetting a 3.2 per cent rise in food costs and a 7.2 per cent lift in healtb costs.

Mr Peter Costello, the Australian Treasurer, yesterday described the inflation figures as "exceptionally good" but ha warned that annual wages growth needed to remain at around 4 per cent for the benefits of low inflation to be maximised.

Mr Costello also said that final estimates pointed to an underlying government budget deficit of A$4.93bn (US$3.65bn) for the latest June year, aubstantially lower than the A$6.86bn deficit forecast earlier.

Trains and boats and .... car parts

By Charles Batchelor, Transport Correspondent

OOCL, a Hong Kong-based shipping line, has launched a twice-weekly rail service carrying car parts from the port of Antwerp in Belgium to a Chrysler assembly plant in Graz, Austria.

This is OOCL's first move into train operations in Europe though the company already operates container trains in the US and China. It reflects the increasing involvemeot of shipping lines in European rail shipments.

The parts, for Chrysler's Voyager and Jeep Grand Cherokee models, are shipped by container on OOCL vessels from the north American ports of Norfolk, New York and Montreal. In Antwerp they are transferred to flatbed rail wagons and moved on trains consisting of np to 80 wagons reserved exclusively for Chrysler.

OOCL has always moved Chrysler parts by rail but its containers were previously moved on mixed trains carrying consignments for other companies. Forming "block trains" consisting solely of Chrysler containers allows for a more reliable service and cuts costs, said Mr Jim Poon, chairman of OOCL (Europe).

OOCL planned the train timetables across Belgium, Germany and Austria but the locomotives, their crews and the wagons are chartered from Transfracht International, the marketing arm of German Railways.

Other recent arrivals on the rail freight scene include NDX Intermodal, an alliance of CSX Intermodal of the US and the German and Dutch railways.

The private sector rail freight companies are being drawn to Europe by the break-up of the large state owned rail monopolies and tbe more commercial approach being taken by some rail managements.

Japanese survey clears Fuji

By Bethan Hutton in Tokyo

Fuji Photo Film's business practices in the Japanese film and photographic paper market do not breach the anti-monopoly law, according to a survey by the Japan Fair Trade Commission.

The finding is new ammunition for the Japanese in the dispute between Fuji and Eastman Kodak, the US photofilm manufacturer, which is currently before the World Trade Organisation. Japan's Ministry of International Trada and Industry said that although the report was not directly linked to the WTO dispute, it did provide extra evidence to support the Japanese government's position.

Miti said the survey showed that both foreign and domestic manufacturers had adequate channels to distribute their products to retailers, and that subsidiaries of Kodak, Konica and Agfa performed similar functions to the (nominally independent) primary wholesalers of Fuji products. There was no factual support for claims that Fuji had been coercing primary wholesalers into exclusive business arrangements, Miti said.

Ms Charlene Barshefsky, the US trade representative, lmmediately attacked the JFTC'e conclusions. The survey's findings "confirm many of the anti-competitive practices thoroughly documented by the US and EU in this sector," and "whitewash ths significant distribntion problems that exist in this sector," Ms Barshefsky said.

While the JFTC said that Fuji had not breached any trade rules, it did suggest some ways in which Fuji might alter its business practices. Fujl should review its systems of guarantee deposits, and lts sales promotion payments, in order to give greater flexibility to the primary wholesalers, the commission said. Other recommendations applied to the industry as a whole, such as not tying sales of below-cost minilab processing equipment to sales of photographic paper.

Ms Barshefsky described the recommendations as "weak and woefully insufficient". The commission was not yet a strong and independent agency capable of dealing effectively with such issues or addressing the informal market access barriers faced by foreign companies in the Japanese market, she said.

The bitter and complicated dispute started in 1995, when Kodak submitted a petitlon to the US government accusing the Japanese government of effectively barring foreign access to the Japanese film and holsteriog Fuji's dominant position. Japan's argument is that it is a question of market structure, which is outside WTO jurisdiction, and that the exclusive wholesala arrangements at the centre of Kodak's complaints are common in photographic markets worldwide, including in the US.

The case was taken to a WTO panel last year, and a ruling is due in October this year, but appeals could prolong the dispnte into 1998.

US finds a lever on Canada utilities

Bernard Simon on the influence of Washington regulators across the border

US regulators are proving to have more influence over Canada'a power utilities than eithar the utility-owners or their customers.

Ontario Hydro and Hydro-Quebec, two of North America's three biggest power companies, have for years displayed the traits one might expect from government-controlled monopolies – an aversion to competition and a take-it-or-leave-it attituda towards consumers.

When tha federal government pushed the 10 provinces three years ago to dismantle inter-provincial trade barriers, electricity was one of the first sectors taken off the negotiating table.

But Washington's Federal Energy Regulatory Commission, FERC, appears to be succeeding where Canadian free-market advocates failed.

FERC's influence north of the border was evident in a July 9 deal between Hydro-Quebec and Enron, the US natural gas distributor. The Canadian utility will gain a foothold in the north-east US energy market by enlisting Enron to market its electricity in New England. In return, Hydro-Quebec agreed to sell Enron's gas to its customers in Quebec.

FERC set the ball rolling last year with a ruling, known as Order 888, that compels US utilities to open their transmission lines to all newcomers, although they can refuse access to any supplier that fails to provide reciprocal treatment.

These rules give FERC a powerful lever over foreign as well as domestic utilities.

The Canadians are loathe to jeopardise their US business. Hydro-Quebec earned C$484m (US$353m) from power exports in 1996, equal to 6.3 per cent of total sales. The Montreal-based ntility, which is one of North America's lowest-cost power generators, thanks to vast hydro-electric resources, sees huge potential in the north-east US.

Ontario Hydro acknowledges the FERC rule could endanger virtually its entire projected 1998 export revenue, estimated at abont C$275m. Ontario has asked FERC to delay implementation of Order 888 pending an overhaul of the province's electricity legislation. The provincial government will outline its proposals soon.

Ontario contends Order 888 will hit it much harder than other Canadian or US ntilities. The "mandated open access" rule applies only to wholesale supplies, which make up an average of only 10 per cent of US utilities' business. But Ontario Hydro sells about 70 per cent of its power to municipal utilities.

Recent evidance suggests Ontario has come to recognise which way tha wind is blowing. Mr Allan Kupcis, Ontario Hydro's chief executive, said: "The market must prevail. To disagree would be to fly in tha face of all that is going on around us."

> Companies have displayed the traits expected from government monopolies

Hydro-Quebec initlally also took an uncompromising stand. However, it was jolted by FERC's refusal in October 1995 to sanction a partnership with Noverco, a Quebec natural gas supplier, and Pittsburgh-based Consolidated Natural Gas, a pipeline operator. The partnership would have offered US consumers different packages of energy depending on cost and convenience.

Furthermore, a breath of fresh air has swept through Hydro-Quebec since Mr André Caillé's appointment last year as chief executive. Mr Caillé previously headed a publicly-traded gas utility.

According to Mr Gary Vollans, an Ottawa power industry consultant, Mr Caillé realises that Hydro-Quebec will be able not only to survive but, as a low-cost producer, to prosper under open competition.

Hydro-Quebec is now taking a more conciliatory stance towards Order 888. It has set up a new transmission division to give non-discriminatory access to outside suppliers. Its change of heart is especially evident in a long-simmering dispute over the Churchill Falls hydro-electric project in neighbouring Labrador.

Cburchill Falls is tbe world's sixth biggest hydro-electric scheme, with a generating capacity of over 5,400 megawatts. Two undeveloped sites, Gulf Island and Muskrat Falls, could boost the total to 8,500 megawatts.

Hydro-Quebec buys virtually the entire Churchill Falls output under a 1969 deal with tbe government of Newfoundland and Labrador. The 65-year agreement has turned out to be a bonanza for Hydro-Quebec. The price at whicb it sells Cburchill Falls power is 20-30 times higber than cost.

According to the Newfoundland government, the Quebec utility makes a profit of about C$600m a year from Cburcbill Falls, while Newfoundland, the most impoverished of Canada's 10 provinces, pulls in only about C$16m.

Until recently, Quebec has turned a deaf ear to Newfoundland's pleas to renegotlate the 1969 agreement. Canada's supreme court has also ruled in favour of the French-speaking province.

But under Order 888, Hydro-Quebec would have to make its transmission grid available to Newfoundland if the latter decided to expand Churchill Falls and export its electricity to the US.

Newfoundland would be unlikely to consider a role for Hydro-Quebec unless, in the words of Mr Brian Tobin, the province's premier, the "fundamental injustice" of the 1969 deal was redressed.

However, Hydro-Quebec would be an obvious partner. "If anybody knows how to develop the Upper Churchill and transmit power at the lowest cost, it's Hydro-Quebec," Mr Vollans says.

Mr Tobln disclosed recently that Newfoundland and Quebec had begnn secret talks on a new Churchill Falls agreement.

The two provinces aim to reach agreement by the end of the year, allowing Newfoundland to share more profitably in its resources and Quebec to realise its ambitions in the US.

WORLD TRADE NEWS DIGEST

Leghold traps deal approved

European Union foreign ministers have approved a deal with Canada and Russia limiting the use of controversial leghold traps for trapping animals, throwing the spotlight on to the US, which has so far refused to accept a deal.

The agreement will avert a threatened EU ban on fur imports from the two countries.

It was negotiated by the European Commission in May, but EU environment ministers last month failed to muster the necessary majority to back it, leaving the issue to be decided by foreign ministers. The UK, Austria and Belgium continued to oppose the deal, saying it was inadequate and had to be extended to the US.

Animal rights groups also attacked the agreement, warning that it would not eod animal suffering. But Sir Leon Brittan, EU trade commissioner, said the deal was a "major advance for animal welfare".

The agreement will allow wooden jaw-type traps to continue to be used by certain indigeoous peoples io Russia, plus plastic-padded and under-water leghold traps – although these have been condemned as cruel by animal rights groups. But it will immediately ban the use of all jaw-type leghold traps in Canada for seven of the 12 species for which they are used. Steel-jaw traps will be outlawed for the remaining five species by 2000.

Efforts will now switch to getting a deal with the US, which insists on its right to continue to use steel-jawed traps unless adequate alternative methods can be found.

Neil Buckley, Brussels

■ AIRPORT MANAGEMENT

British mission visits Mexico

A British mission representing 600 UK companies with expertise in airport management began a high-profile visit this week to Mexico, where 35 airports are to be privatised.

Mr Gil Thompson, president of the British Airports Group, said UK companies planned to bid aggressively for Mexican airport concessions. Dutch, French, Spanish and US airport management companies have also expressed an interest in the Mexican privatisation.

Mr Jorge Silberstein, privatisation co-ordinator at the transport and communications ministry, said guidelines for the airport sell-off would be published in September, with auctions beginning at the end of the year or the start of 1998.

Leslie Crawford, Mexico City

■ SOUTH AFRICA TELECOMS

AAT's big contract hopes

Alcatel Altech Telecoms, the Franco-South African company, said yesterday it boped to win more than half of a giant R2bn ($438m) radio technology contract from telecommunications utility Telkom. On Tuesday Telkom announced the tender award to AAT and Lucent Technologies of the US, but the exact split of the deal has not yet been decided. "We don't imagine it will be any less than 50 per cent for AAT and it could be more," said Bill Venter, chairman of Altron, the controlling shareholder of Altech, which owns 40 per cent of AAT.

The two-year contract is for the network planning, installation and supply of radio technology for 420,000 telephone lines in previously underserviced areas of South Africa.

Reuter, Johannesburg

Peru's armed forces enter Congress

By Alistair Scrutton in Lima

Peru's armed forces chiefs entered Congress late on Tuesday night as intense political upheaval seems to be forcing the government increasingly to rely on the military.

"Never before in the history of Peru have the armed forces entered the Congress," said Mr Javier Diez Causeco, a member of the opposition United Left party. "Not even during the wars of independence."

The head of the armed forces, General Nicolas Hermoza Rios, along with almost 40 military officials, entered Congress after an invitation by the newly-appointed defence minister, Mr Cesar Saucedo, himself an army general. However they were forced to abandon attempts to address a closed session after protests from the opposition and after they had objected to the use by Mr Diez Canseco of a cellular phone to speak live to a TV station.

The session was called to discuss the recent government decision to strip the popular owner of a television station of his nationality because of "irregularities" in his papers.

President Fujimori's approval ratings have hit their lowest level in seven years of government

The citizenship of Mr Baruch Ivcher, an Israeli-born naturalised Peruvian, was withdrawn only hours after his Frecuencia Latina TV station broadcast tapes alleging intelligence services had illicitly wiretapped 197 public figures, including dozens of journalists, politicians and judges.

The military officials who entered Congress, including the three heads of Peru's armed forces, reportedly had information linking Mr Ivcher to "secret business deals" with Ecuador.

"With these scandals the government was without an argument to defend itself, so they brought in the military as a weapon of last resort," said Mr Mirko Lauer, a political columnist for La Republica newspaper.

The entry of the military had followed a concerted attempt by President Alberto Fujimori's ministers to defend the government over the case and the wiretapping allegations. Cabinet ministers, including Mr Alberto Pandolfi, prime minister, and Mr Domingo Palermo, education minister, denied in Congress the government had listened to telephone conversations of opposition politicians and journalists.

"The evidence of Frecuencia Latina is inconsistent," said Mr Palermo, who argued that the tapes broadcast on Frecuencia Latina had come from privately-owned cellular scanners, not the intelligence services.

The developments have prompted street protests. Stock market prices fell and Mr Fujimori's approval ratings hit their lowest level in seven years of government.

President Alberto Fujimori: his ministers defended government over wiretapping revelations

AMERICAS NEWS DIGEST

Republicans refine plans

Republican congressional leaders yesterday began final talks with the White House on the details of their plans for balancing the federal budget by 2002. House and Senate leaders agreed late on Tuesday on a combined package of measures to take into the discussions with the Clinton administration.

These include a $500 per child tax credit, reduced for poorer working families who already receive a tax credit, a cut in the main rate of capital gains tax from 28 per cent to 20 per cent, the indexing of capital gains for inflation, and a reduction in inheritance tax on large estates. It was also expected to include a rise in cigarette taxes to pay for more comprehensive child health insurance.

It was still unclear whether the final congressional plan would include a proposal, dropped by the Republicans on Monday, to charge extra premiums to high-income Americans for Medicare, the public health insurance system for the elderly. *Gerard Baker, Washington*

■ BRAZIL CORRUPTION SCANDAL

Workers' party chief cleared

An investigation into a corruption scandal involving Brazil's leftwing Workers' party (PT) has exonerated the party's most important leader, Mr Luiz Inácio Lula da Silva, freeing him to run for the presidency next year. However the inquiry found several PT-run municipalities operated a "fraud scheme" and that a friend of Mr da Silva's, Mr Roberto Teixeira, had "abused his confidence".

The scandal had threatened to sideline Mr da Silva, one of the few politicians with any chance of beating President Fernando Henrique Cardoso in elections in October next year. Mr da Silva is now favourite to be the candidate of a group of leftwing parties. The inquiry followed allegations from a party activist that several PT municipalities had hired a company, CPEM, to falsify accounts in order to receive a higher share of government funding. *Geoff Dyer, São Paulo*

■ CUBA

Man held after bomb attempt

Cuban police have arrested a man with a German passport after an incident in which an explosive device was thrown into a traffic tunnel under Havana Bay. Police arrested the man at the weekend and searched the room he was renting at Guanabo, a beach resort near Havana, his Cuban landlady said. Police took away a number of small boxes for investigation.

The incident followed small bomb blasts at two Havana tourist hotels on July 12, which slightly injured three people. Cuban officials think the explosions are part of a campaign by rightwing anti-communist exiles to damage the island's Cuba's industry. *Pascal Fletcher, Havana*

Horse trips up Chilean minister

By Imogen Mark in Santiago

The heavy winter rains in Santiago last month have washed out the political career of Mr Edmundo Hermosilla, Chile's housing minister. He resigned on Tuesday after admitting he had received the gift of a valuable horse from one of the ministry's biggest contractors.

The same contractor, Mr Francisco Perez Yoma, was responsible for building several blocks of low-cost housing in Santiago that leaked badly during the June storms. Since then the 7,000 families have been living precariously, their homes swathed in sheets of heavy plastic as temporary protection, while the ministry and the contractor wrangle in the courts over who was responsible.

Ironically, Chile's housing policy for low-income groups had been one of its most successful social initiatives. In May, President Eduardo Frei congratulated the ministry for building half a million new homes in the past three years. But the "nylon homes", as the local press calls them, have been criticised for their low quality.

Mr Hermosilla's fellow ministers and other members of the Christian Democrat party to which he belongs rallied to defend his record. "Everyone takes presents," said one Christian Democrat congressman. Mr Hermosilla himself, when he was first asked about the horse some weeks ago, reproved the journalist for asking a question "in very bad taste". In his resignation speech he insisted that he "never mixed personal matters with professional or ministerial responsibilities".

President Frei, however, apparently took a more critical view. Accepting the minister's resignation, he commented that "there has never been any legislation about accepting presents . . . [but] the government is looking at issuing regulations [to cover it]". The unlucky homeowners, beneath their flapping plastic sheets, had no doubts, either.

A banner stretched across one of the blocks asked: "Minister, if we give you two horses, will you give us new homes?"

Greenspan's tone positive for markets

By Gerard Baker in Washington and John Labate in New York

Mr Alan Greenspan, chairman of the US Federal Reserve, yesterday repeated his upbeat message about US economic prospects, appearing to give a green light to the continuing bull market in equities and bonds.

As the Fed chairman gave the second day of his Humphrey-Hawkins testimony to Congress on the central bank's semi-annual assessment of the US economy, economists were broadly agreed that his tone was extremely positive for financial markets.

Stock and bond prices, which soared on the chairman's remarks on Tuesday, moved higher again yesterday. At noon the Dow Jones Industrial Average was up 42 at 8,104. The Treasury's benchmark 30-year treasury bond held on to Tuesday's gains, with the yield steady at 6.41 per cent.

Mr Greenspan continued to give comfort to financial markets yesterday, suggesting consumer price inflation remained subdued, even as unemployment was near a 25-year low.

"Alan Greenspan is bullish on America. His latest round of Humphrey-Hawkins testimony was the most positive assessment of the US economy he has ever delivered," said Mr Bruce Steinberg, chief economist at Merrill Lynch, the New York investment bank.

"Greenspan is willing to try this experiment of low unemployment and low inflation right before our eyes," said Mr Elliott Plat, director of economic research at Donaldson, Lufkin, and Jenrette, the brokers.

Conspicuously, Mr Greenspan did not use the second day of his testimony to remove any of the shine from the markets' reaction to his first day's comments. In the past he has often slightly shifted emphasis on the second day if he believes markets may have mis-interpreted him.

In his prepared statement on both days, Mr Greenspan not only avoided repeating his warnings of last winter about the dangers of "irrational exuberance" in the stock market, but he seemed much more open to the possibility that the surge in asset prices in the last year or two might have been justified by a fundamental change in the economy.

"Soaring prices in the stock market have been fuelled by moderate long-term interest rates and expectations of investors that profit margins and earnings growth will hold steady, or even increase further in a relatively stable, low-inflation environment," he said.

He went on to suggest these expectations might be justified by recent signs that a combination of technological change, and globalisation of the US economy, might have shifted long-term US growth potential upwards.

On the immediate outlook, the Fed chairman's bullishness also helped markets. There was no repeat of his warning in his last testimony in February about the possible need for a pre-emptive strike against inflation. That warning was followed by a quarter point rise in interest rates four weeks later. The reaction in the fixed-income market even suggested investors might be expecting that the next move in interest rates might be down, not up.

But some analysts were concerned investors had over-reacted to the testimony, ignoring some of Mr Greenspan's more cautionary remarks. "The Fed is far from complacent and Alan Greenspan himself seems to think a policy tightening in the future remains much more likely than an easing. Given this sentiment it is hard to fathom the market reaction," said Mr Christopher Low, economist with HSBC in New York.

Lex, Page 12

US mutual funds look to export markets

US mutual fund companies seem finally to have found a way to export their products.

Last month saw three significant links between US fund managers, flush with their success in selling retail mutual funds and corporate pension funds to the American "baby boom" generation, and overseas financial conglomerates keen to replicate some of the success in their domestic markets.

Early in June, Nippon Life of Japan, the world's largest life assurer, signed a joint venture with Putnam Investments of Boston to manage funds worth Y80bn ($692m), and to train its employees in the arts of servicing and selling mutual funds in the American style.

The month ended with a similar deal. Sumitomo Life, the third largest Japanese life group, linked with Franklin/Templeton of San Francisco, another of the largest and most successful US fund groups. To an even greater extent than Putnam, Franklin/Templeton has a reputation for specialising in emerging markets.

And at the end of last month, the New York firm of Scudder, Stevens & Clark was acquired by the Zurich Group of Switzerland. Scudder, which is privately held, maintained a large stake in the operation, and made clear the main aim of the deal was to allow it to compete internationally, particularly in Europe.

July started with another big tie-up, as Alliance Capital, a large New York-based manager which is part of the Equitable group of companies, announced its own joint venture, offering asset management for funds sold in Brazil, and eventually Argentina, by BCN, a Brazilian retail bank. Alliance is managing funds worth $1.1bn initially, and will also use the venture to help its Brazilian research effort, offering Latin American funds in the US.

The flurry of activity is significant, because the US fund industry's attempts to move outside its own borders have so far been largely unsuccessful. In the US, growth of mutual funds – open-ended collective investment funds – has been phenomenal. Each month, new investments exceed redemptions from the funds by an average of more than $20bn.

Fund groups have been helped by the extended "bull market" in US equities of the 1990s, and by demographic factors, with the post-war "baby boom" generation now approaching retirement and saving heavily. These factors are not replicated exactly outside the US.

But they have also made at least two product innovations which could be copied overseas. First, fund companies have persuaded US investors to buy mutual funds direct, over the internet or toll-free numbers, the way they would buy a "commodity" product such as motor insurance, or make transactions in their current account.

Second, corporate pension plan administrators now typically allow their employees to put their pension cash into mutual funds through so-called "401(k)" plans, and fund managers have developed highly sophisticated systems to serve them.

With emerging markets now reaching the stage where employees want to save, and many established state social security systems facing the need to switch to the US pension model, US fund groups believe they now have an opportunity to export their expertise. But to date most US companies have found expansion surprisingly difficult.

Mutual funds conquer the US

Source: Investment Company Institute

There is also controversy within the industry over whether expansion should be attempted organically, via joint ventures, or by taking direct equity stakes.

Alliance Capital has pursued international expansion more energetically than many, with offices in 17 countries and total funds outside the US of about $23bn. But Mr David Williams, its president, said the company was still "up against it".

He said: "American firms are somewhat disadvantaged because we are all structured along specialist lines. A traditional pension fund in Britain, for example, is a global balanced account with a UK equity bias."

Selling direct to the public is also a problem for the US, because of the different distribution systems. "Banks in Europe have a hammer-lock on the market, and so far they've been loath to distribute products not managed by themselves." Elsewhere, the problem is the lack of an established "broker-dealer" network to serve investors and distribute products, although Japan comes closest to being an exception.

Some US fund managers distribute direct to the public, led by Fidelity Investments of Boston, which became the world's largest fund manager on the back of the tactic. But Mr Williams describes this approach as "prohibitively expensive". Few apart from Fidelity itself, which has now built an influential position in the UK market without approaching the dominance it enjoys in the US, have the resources to attempt it.

Hence Alliance Capital's solution of forming alliances in emerging markets. According to Mr Williams: "In the least developed markets we've chosen to try to create exclusive arrangements with a financial institution which we perceive to have distribution capability."

Alliance Capital has already used this strategy to link with a bank in Poland.

Other companies have rejected the joint venture. According to Mr Edmond Villani, chief executive of Scudder: "We have pursued a number of joint ventures in Asia and Latin America with large commercial firms which clearly have an investment outreach, and were very interested in our investment expertise. But in all cases the strategic shortcomings persuaded us that it was not the way to build a global asset management business."

He pointed out that training foreign staff often involved tying up precious resources, and that such ventures were often made from a position of weakness – "one side doesn't have distribution, the other doesn't have fund management".

Once a venture is well established, it is easy for the two partners to become competitors, he adds.

However, Mr Villani, like others in the industry, has great confidence for the future: "We begin with the premise that the arguments for mutual funds are compelling. It took a long time for that to be accepted in the US."

In the long run, he says, growing realisation by consumers of the need to put at least a little money into the stock market, and changing pension policies, should ensure the industry's international expansion: "Outside the US we firmly believe funded pension systems will emerge. That could be a stimulus for the development of equity capital markets. That's why we are doing this."

John Authers

Fears over mutuals 'overstated'

Fears that mutual fund investors would withdraw quickly from the market in the event of a downturn, leading to a "downward spiral in asset prices" are overstated, according to research from the Federal Reserve Bank of New York, John Authers in New York writes.

In its Economic Policy Review for this month, the bank published research into the correlation between flows of money into mutual funds and market performance. The strong net sales registered by the fund industry in the last two years have coincided with a strong bull market in equities, leading several economists to suggest a downturn could lead to swift and heavy sales.

Some economists, such as Mr Henry Kaufman, a highly influential commentator, have also pointed out that modern on-line and telephone distribution systems have made it possible to sell mutual funds almost instantaneously.

But an analysis of fund flows over the past 10 years published by the bank finds that short-term market movements have "little to no effect on mutual fund flows" in equity funds. There was a slight effect for more conservative funds, but a market decline of 1 percentage point for government or corporate bonds would lead to an outflow of less than a tenth of 1 per cent.

Venezuela watchdog irks investors

The decision this week by Venezuela's telecoms watchdog to ban the country's two cellular telephone companies from taking on new customers highlights the difficulties investors are facing in a transition to a market economy.

The two companies, Telcel and Movilnet, were told that excessive demand appears to have caused a deterioration in service and were ordered to sort out the problem before expanding their customer base.

But industry analysts see the decision as part of a wider problem of inadequate regulations and arbitrary government decision-making. These have contributed to investor uncertainty when whole areas of business are opening up for the first time.

Earlier this year the telecommunications regulator, Conatel, delayed a contractual rate increase for the telecommunications company CanTV on the excuse of inadequate information on the company's cost structure. Analysts suspected attempts to renege on the previously agreed rate formula. In the transport and power sectors, companies also complain about arbitrary rate policies.

Regulating agencies tend to make decisions on political grounds

"The government simply is not convinced that consumers should pay for certain public services," said Mr William Phelps, who advises an international consortium on a $280m highway improvement and operation contract.

When the consortium began charging its $0.42 two-way toll, popular protests broke out and the ministry of transport slashed the rate in half. It is now negotiating to subsidise the difference. "It defeats the purpose. Why have a concession if you're going to subsidise in the end?" asked Mr Phelps.

Yet problems are not limited to low rates. Inadequate legislation and untrained regulators add to the frustration of operators. An April tender held by Conatel for a rural telephony contract was shrouded in controversy and legal uncertainty.

The Venezuelan-American chamber of commerce says the recent controversy between Conatel and private companies in basic and cellular telephony has overshadowed the positive investment climate in the country. "It brings with it an apparent disorder and indifference that could inhibit foreign investors."

The underlying problem seems to be that regulating agencies make decisions on political rather than technical grounds. "It's a cultural thing. The concept of a regulator here is that of a protective parent," said Mr Robert Bottome, head of the consultancy Veneconomia.

Others attribute the remnants of populism to the survival of hardliners in ministries unwilling to give up power.

Mr Freddy Rojas Parra, minister of industry and commerce, defends the government's policy, saying that investors are expecting too much too quickly.

"We've made enormous progress in adjusting rates and prices but there's also a very large backlog." Mr Rojas adds that the government has already paid a high political price as a result of important rate adjustments over the last 18 months. Once consumer purchasing power recovers from the impact of last year's austerity measures and from a five-year recession, remaining price controls will be removed and rates adjusted, he said.

One area where there have been improvements is in the banking sector. Following the 1994 financial sector crisis, the superintendency of banks has regained the confidence of foreign investors, while ensuring more safety, transparency, and public information.

"It's a slow process but the government appears to have realised the importance of establishing clear rules of the game and strengthening the agencies that enforce them," said Mr Luis Soto, head of the private public investment promotion agency Conapri.

Raymond Colitt

هكذا من الاصل

Israeli cabinet tackles budget deficit

By Judy Dempsey in Jerusalem

The Israeli government yesterday agreed a Shk800m ($228m) cut in this year's budget despite opposition from Mr Yitzhak Mordechai, the defence miniater, and four other ministers.

The 1.1 per cent cut, affecting all but three of the 18 miniatries, is intended to rednce the budget deficit to 2.8 per cent of gross domestic product.

But finance ministry officials said the deficit would probably be closer to 3 per cent as growth in the economy slows to about 2.5 per cent compared to 4.4 per cent in 1996.

The cuts are in two parts: the general operating budget will be reduced by Shk600m, while a further cut of Shk200m was needed to make up for Israel's agreement to transfer $50m of US aid to Jordan and Shk20m to fund the diatribution of gas maska to the public.

The ministers have until next week to explain bow they will implement the cuts.

Officials said yesterday they were confident the package would be accepted by parliament.

"These cuts are a good signal," said Mr Eli Nacum, chief trader at Zannex Securities. "It shows that the new finance minister is determined to stick to a tight fiscal policy in line with the Bank of Israel's tight monetary policy."

Mr Yaakov Nesman, appointed finance minister this month following the resignation of Mr Dan Meridor who found it impossible to work with Mr Benjamin Netanyahu, the prime minister, has quickly established his credentials as a tough negotiator. By cutting the defance budget by 0.6 per cent, "he has shown there are no sacred cows left," said Mr Nacum.

Mr Mordechai, who declined to attend the cabinet meeting, sitting in a separate room in the prime minister's office throughout the marathon session, had wanted an additional Shk1.5bn in spending. Instead, he is now saddled with finding ways of cutting defence spending by Shk205m.

Mr Netanyahu, who appears to be putting finally in place a consistent fiscal policy and his privatisation programme, said it was necessary to press ahead with the cuts given the slowdown in the economy as well as the fall in immigration which is expected to decrease from last year's 71,000 to 63,000 this year.

Neeman: has sbnwn there are no sacred cows left

Zimbabwe prepares tough budget medicine

Tony Hawkins on the delicate challenge of restoring stability to an ailing economy

Zimbabwe's finance minister, Mr Herbert Murerwa, will have a mountain to climb when he presents the 1997 budget today.

Not only must he seek to restore economic stability to a country with real incomes down 16 per cent since 1991, rapidly growing unemployment, 21 per cent inflation, interest rates of at least 27 per cent, a bndget deficit at more than 10 per cent of GDP and an overvalusd exchange rate, but he must win the approval of the International Monetary Fund and negotiate a structnral adjustment loan.

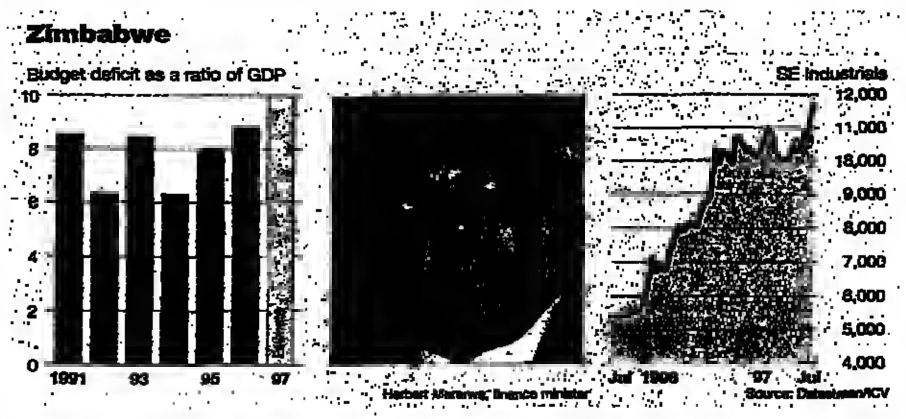
The budget has also to be sold to an electorate increasingly disillusioned with the government – exemplified by a rash of strikes and go-slows across the economy.

In spite of the scale of the task, financial markets have already given Mr Murerwa the thumbs-up. In recent weeks, the Zimbabwe dollar has continned to appreciate in real terms, while share prices have hit record highs on the Zimbabwe stock exchange.

Sucb market optimism contrasts sharply with developments on the ground. In recent days, the country has been hit by the worst industrial unrest – some of it violent – for 17 years, resulting in a government ban on all demonstrations for the next fortnight. Employers have been granting pay increases of 25 per cent to 40 per cent – and in one reported case as much as 70 per cent. Electricity tariffs have been increased by 136 per cent, spread over three years.

Against this inflationary background, a credible budget will require a blend of spending cnts and tax increases. In May, Mr Murerwa revealed that the budget deficit for the year to June 30 was likely to be 11.4 per cent of GDP compared with the previous year's 10.1 per cent and a targeted 8.5 per cent.

Since then the situation has deteriorated with the announcement of a Z$9.1bn (US$800m) civil service pay award covering the next 18 months.



Herbert Murerwa, finance minister

In last year's budget, the finance minister also predicted that inflation would slow to 13 per cent by mid-1997. In fact, it has barely changed over the past year, averaging 19 per cent.

Now, sharply higher fuel and energy prices, rapid monetary expansion and wage awards way above productivity growth seem almost certain to push inflation into the high twenties later in the year. This could force the central bank, which until April was committed to lowering rates, to raise its rediscount rate from the current level of 25 per cent, with s subsequent further increase in bank lending rates.

On the positive side, the combination of strong economic growth – 6.7 per cent last year and an estimated 4 per cent in 1997 – plus escalating inflation itsslf will boost budget revenues. "Smoks and mirrors" will also come to Murerwa's aid in the form of the revaluation of GDP. This, in turn, should rednce the budget deficit ratio from his May forecast of 11.4 per cent of GDP to something closer to 10 per cent.

Even so, the recent civil service wage award will leave the budget deficit standing at around Z$13bn.

Mr Murerwa is not short of advice on how to reduce this. The IMF reportedly wants him to increase energy taxes substantially; raise taxes on beer and tobacco; force civil servants to pay higher pension contributions; and cut government grants. Other suggestions include increasing prices for state services, retrenching more people from the uniformed services (including the police force), and the imposition of a land tax which could bring in upwards of US$100m.

The practicality of some of these suggestions is questionable. Levying a land tax is likely to require a good deal of preparation, while the IMF'a suggestion that Zimbabwe should reduce the size of its police force suggests that it rejects, or disregards, the World Bank's 1997 report on tha importance of institutional capacity in the development process.

Nevertheless, the IMF's budget proposals are intended to save – or bring in – an extra Z$6bn (about 4 per cent of 1997/98 GDP). This, coupled with sdditional privatisation revenues, might make it possible to bring the deficit down to levels which the IMF could recommend, with a moderately straight face, to donors and lenders.

Even so, Mr Murerwa's task is an unenviable one. If he produces the tight fiscal bndget the country needs, he will probably exacerbate inflation in the short-term, while alienating both the business community and the public.

The budget, moreover, comes at a time when the electorate is becoming increasingly disillnsioned with ths government. In receot montha, President Robert Mugabe's administration, now in its 18th year, has been hit by a series of embarrassing revelations surrounding the award of cellular telephone licences; the contract for the new Harare international airport terminal (won by a company in which the president's nephew is prominent); housing loans to senior government officials and politicians; and a scandal over payments by the War Veterans Fund.

At the weekend, cabinet ministers were howled down by angry war veterans and forced to flee a public meeting via the back door - in spite of offering pension payments that will cost the taxpayer Z$840m a year to 70,000 war veterans. This, and recent industrial unrest, indicates that the electorate's patience is wearing thin.

But while there is no viable political opposition waiting in the wings, and no elections for three years, the government's recent conduct suggests it still prefers the high inflation climate to the tough fiscal measures necessary to reverse the fiscal follies of the last decade.

Perhaps Dr Murerwa will find the courage to break the mould.

INTERNATIONAL NEWS DIGEST

UK and France in Africa pact

Britain and France yesterday agreed to join forces to promote democracy and economic development in Africa, and to co-operate in restraining arms sales.

The agreement, reached at talks in London yesterday between Mr Robin Cook, the UK foreign secretary, and Mr Hubert Védrine, France's foreign minister, follows the arrival in power of socialists in Europe's two biggest ex-colonial powers and its largest weapon exporters. Mr Cook has promised to give human rights more weight in UK foreign policy, while the socialist government in Paris is distancing itself from France's recent record of backing dictators like ex-president Mobutu.

The two ministers discussed the idea of a European arms exporters' code of conduct so that if one exporter refused to sell to a particular country, otbers would not grab the business. *David Buchan, London*

■ ALGERIAN VIOLENCE

Extremists kill family of 15

A wave of killings in Algeriao villages has left dozens of people dead in recent days, according to local media reports. In the village of Yemma M'guita, in the wilaya (province) of Blida, 39 people, including a family of 15, were killed, according to Le Matin, the French daily. In Benachour, also in Blida, four women and three men had their throats slit, while a third attack was reported near the town of Souk el Gboslane, east of Blida, in whicb nine meu were killed. A newspaper close to the presidency said this week a massive army sweep in Hattatba, west of Algiers, had led to the killing of 90 militants.

● Algeria announced yesterday that local elections would be beld on October 23. *Roula Khalaf, London*

■ GENOCIDE IN RWANDA

Belgian journalist arrested

The United Nations Rwanda genocide tribunal yesterday netted its first European suspect – a far-right Belgian journalist wbo worked for Radio Milles Collines in Kigali.

Mr Georges Ruggiu, who is alleged to have made broadcasts urging Hutus to eliminate Tutsis and political moderates in 1994, was arrested by Kenyan authorities. Scores of Hutu suspects have been rounded up in Kenya following a fence-mending visit to Nairobi by Major Paul Kagame, Rwanda's military strongman. *Michela Wrong, Nairobi*

■ HUMAN RIGHTS IN BAHRAIN

US is 'failing to speak out'

The US government was criticised yesterday for failing to speak out against buman rights abuses in Bahrain, a major naval port for US forces in the Gulf. Human Rights Watcb urged the US and UK to use their military and political ties to put pressure on the ruling Al Khalifa family. A report by the US-based buman rights campaign group said wide-scale government and security forces violations of the civil and political rights of Bahrainis were a major factor behind nearly three years of unrest, whicb has led to bomb blasts and rioting. The Gulf banking centre's Shia majority has been demanding political reforms from the Sunni rulers. *Roula Khalaf*

Charging students $1,600 a year for learning is accepted as only long-term solution to 'crisis'

Ministers end free university tuition

By Simon Targett,
Education Correspondent

The government yesterday took the historic decision to end free tuition in UK universities, prompting signs of the first backbench revolt to the Labour government.

Mr David Blunkett, the education secretary, ordered the end of free higher education for all after accepting recommendations from an advisory committee that charging students £1,000 ($1,670) per year tuition fees was the only long-term solution to the "crisis" in the university sector.

The proposals are contained in a long-awaited review of higher education led by Sir Ron Dearing.

Sir Ron's report, published yesterday, calls for the biggest shake-up in the university system for 35 years. It makes recommendations to charge tuition fees, expand student numbers and introduce basic "threshold" standards for all degrees.

The government, in a quick-fire response, welcomed the report as "coherent and thoughtful". Mr Blunkett promised there would be e white paper in the autumn.

But Mr Blunkett rejected Sir Ron's preferred option for student contributions, choosing a repayment system which, while raising more money for universities, would leave students from poor families with debts of over £10,000 – £2,000 more than wealthy students.

He also side-stepped Sir Ron's plea that the effects of planned cuts in university funding over the next two years – which Sir Ron said "would damage the quality and effectiveness of higher education" – should be alleviated by a £370m injection of public funds.

The announcement to charge tuition fees prompted Lord Glenamara, a Labour education secretary under Harold Wilson, a former prime minister, to threaten to resign the Labour whip. He said he was "ashamed" of the government's proposals.

Mr Ken Livingstone, another leading Labour leftwinger and the Brent East MP, said he would vote against the proposals. He said he believed 70 per cent of Labour backbenchers shared his view, but that the party's tight discipline would see most toe the party line.

Senior sources indicated that the opposition Conservative party would vote against tuition fees, although Mr Stephen Dorrell, the shadow education secretary, is likely to attack the form in which the government proposes them rather then the principle.

In a report presenting a vision of higher education for the next 20 years, the Dearing committee said the government should lift the cap on student numbers.

It would like to see 45 per cent participation rates, and anticipates that an extra 300,000 undergraduates could enter higher education each year by 2015.

The committee also said the government should underpin academic standards, which employers think have slipped in recent years, by establishing a national pool of expert external examiners and by laying down basic "threshold" standards for all degrees.

Mr Blunkett said the government had "taken Sir Ron's recommendations and built on them". It acknowledges universities are underfunded, claiming it would cost the taxpayer £6bn by 2015 to increase participation and restore the level of funding students enjoyed in the 1970s.

Cost of college degree could hit $13,000

By Simon Targett,
Education Correspondent

Students face flat-rate tuition fees of around £1,000 ($1,670) from next year under proposals which, added to loans for maintenance, would push the cost of a three-year degree course to around £8,000.

But Sir Ron Dearing's committee said elite "ivy league" universities should not be allowed to charge higher fees, although it did not rule them out as a long term option.

It also warned the government against raising the tuition fee contribution without parliamentary approval.

The widely leaked recommendation, which would mean the end of free higher education for all, is seen as the best way of rescuing universities from a dire financial crisis.

According to the committee, the sector requires an additional £350m in 1998-99 and £565m in 1999-2000. This additional annual funding requirement is expected to rise to nearly £2bn in 20 years.

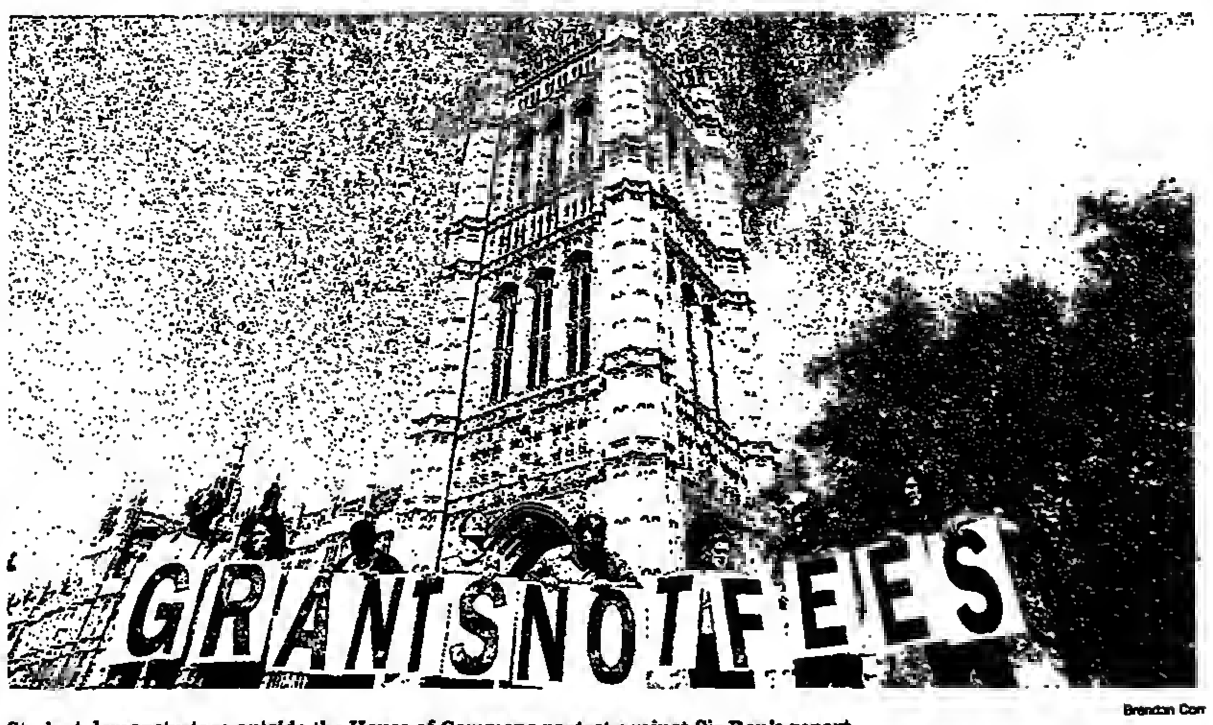
Tuition fee contributions – calculated at 25 per cent of the real tuition costs – are expected to produce £350m after the first year, rising to £900m after 18 years.

To boost the university sector's short-term financial needs, the committee is also asking government to reduce planned spending cuts, put at 6.5 per cent over the next two years.

If these go ahead, the sector could be seriously damaged, the committee warns. It recommends a 2 per cent cut over two years, which would require additional funding of just over £100m in 1998-99 and £270m in 1999-2000.

The committee's decision to recommend tuition fees is justified by evidence showing that graduates receive salaries between 11 and 14 per cent higher than non-graduates.

It also says that students will become more demanding of institutions, forcing up standards; that it would help to level the playing field between full and part-time students; and it would mean there was a clearer expectation that the funding released should be reinvested in higher education.



Brendan Corr

Student demonstrators outside the House of Commons protest against Sir Ron's report

The fees plan is justified by evidence that graduates get salaries 11-14% higher than non-graduates

Graduates in work would pay back an income-contingent government loan through the Inland Revenue, the tax collection agency, which was selected because it already has arrangements for assessing income and securing payments from almost all of the working population.

The Revenue would collect the loans on behalf of a newly-formed Student Support Agency, which would streamline the number of student support bodies. This currently exceeds 160.

This "graduate commitment scheme" would be similar to the contribution schemes in Australia and New Zealand. But unlike those, the UK government would not be allowed to increase unilaterally the proportion of tuition costs paid by graduates.

The committee says such e change should not be allowed to take place without an independent review and the assent of both houses of parliament.

The money accruing from tuition fee contributions could be slow in filtering through the system. To remedy this, the committee suggests discounts for up front payment or a modest real rate of interest on loans to encourage those who can afford it to make a contribution at the time of study.

Proposals to secure private finance for loans – instead of government finance – were rejected because the committee was not satisfied they would deliver value for money.

But in order to remove the loan book from the public spending borrowing requirement, the committee recommends the government follows international accounting practice, which does not treat the repayable part of loans in the same way as grants to students.

NI talks in doubt as arms plan is rejected

By John Murray Brown in Belfast and John Kampfner in London

The government's proposals for paramilitary arms decommissioning in Northern Ireland were rejected yesterday by the region's three main pro-British unionist parties, casting doubt on the prospects for talks in September aimed at bringing them together with Sinn Féin, the political wing of the Irish Republican Army.

With the fringe "loyalists" also abstaining from yesterday's vote at the multi-party talks, the UK and Irish governments said they would be inviting parties to bilateral consultations during the summer to try to ensure the start of substantial negotiations on Northern Ireland's future.

The document the parties rejected calls for the paramilitaries to "consider" taking their weapons out of commission in parallel with progress in the talks.

The Ulster Unionists, the province's largest party, insisted they would stay in the negotiations. But the hard-line Democratic Unionists and the small UK Unionists said they were quitting.

Ms Mo Mowlam, chief Northern Ireland minister in the UK government, said her determination to start in September was "beyond doubt". Mr Ray Burke, the Irish Republic's foreign minister, warned that no one would be allowed to block the process.

Ms Mowlam, due to meet Mr Burke in Dublin, the capital of the republic, on Tuesday, said the two governments would take "all the necessary steps" to ensure the talks started on time.

Earlier Mr Mitchel McLaughlin, chairman of Sinn Féin, warned that if unionists were allowed to hold back progress it would "spell for all of us a return to the conflict we were happy to leave behind".

Mr Gary McMichael, of the Ulster Democratic party, linked to "loyalist" paramilitaries, accused the DUP of "bolting for the door with the first sight of the enemy".

In the House of Commons, Mr Tony Blair, the prime minister, denied the government had shifted its position on decommissioning to accommodate republicans.

Responding to the first public stirrings of concern from the opposition Conservatives, the prime minister said that while welcoming the IRA ceasefire the government was "not the slightest bit dewy-eyed" about it and understood the cynicism felt by some in Northern Ireland.

Mr Blair was asked by Mr William Hague, Conservative leader, to undertake that "there will be no question of substantive negotiations with Sinn Féin proceeding without early parallel decommissioning of illegal terrorist weapons".

Mr Blair responded that his stance had not changed: "It is our desire to see decommissioning during the course of the negotiations."

He rejected suggestions that, with the Anglo-Irish paper failing to achieve sufficient consensus at the talks, the government was preparing to impose a solution over the heads of the political parties.

MPs question cause of helicopter crash

By Liam Halligan and Jimmy Burns

The official cause of the Chinook helicopter crash, which killed 25 Northern Ireland intelligence experts in June 1994, was yesterday called into question by the new defence committee.

In a private meeting, the House of Commons committee agreed to ask the Ministry of Defence for mora explanation of the Royal Air Force's verdict – that the crash on the Mull of Kintyre in Scotland resulted from "gross negligence" by the two pilots – in the light of strong objections from ex-RAF servicemen and a Scottish sheriff's report that the causes remained "unclear".

In a separate development, the National Audit Office, the public spending watchdog, has received information raising questions about the way an updated version of the Chinook was re-introduced into service prior to the crash, after a refit by Boeing, its US manufacturer.

The NAO is considering examining evidence from Chinook flight trials as part of a forthcoming investigation into MoD procurement.

Mr Michael Tapper, the father of one of the dead pilots, hopes that both the NAO and the committee will examine the fatal accident inquiry of Sir Stephen Young, a Scottish sheriff.

Sir Stephen's report was "unable to determine a definite cause" of the crash, after hearing former RAF pilots declare that colleagues had refused to fly the Chinook Mark 2 similar to the one that crashed because they had identified technical problems during trials.

Mr Tapper said thet Sir Stephen's open verdict meant "the RAF has failed to adhere to its own regulations – that only in cases where there is no doubt whatsoever should deceased air crew be found negligent".

In a letter to the sheriff, the MoD admitted that trials at a UK air force base had been temporarily suspended after a Mark 2 had experienced engine problems on the ground.

It also admitted that in the period leading up to the crash there were a number of other incidents involving airborne Chinook helicopters, of which "approximately five" were due to technical malfunction.

With the RAF's verdict complicating payments of compensation to the two pilots' families, the MoD is now understood to be putting pressure on them to settle out of court.

Although the NAO's remit is essentially financial, e senior official confirmed that a judgment of whether Chinooks were introduced into service in a "sensible and cost-effective way" would have to consider the still disputed circumstances surrounding the helicopter's most controversial episode.

Since the beginning of the year,
the MoD has been under pressure to re-examine allegations that technical failure might have been responsible for the crash after the Chinook had been "rushed into service" after its refit.

UK NEWS DIGEST

Hopes rise in airline dispute

Hopes of a settlement in the British Airways dispute rose yesterday after managers and cabin crew representatives engaged in talks, two weeks after a three-day strike severely disrupted services. Representatives of the TGWU transport union met managers for several hours at Heathrow airport with Acas, the conciliation service. Union leaders tabled their written proposals on how BA could trim £42m ($70m) from its cabin crew costs.

A joint statement said last night: "Talks between British Airways and the TGWU concerning the cabin crew dispute are continuing with the assistance of Acas, and both parties have agreed that no further statements shall be made until these talks are concluded." Both sides seemed confident they could agree on the savings, part of the airline's £1bn efficiency programme.

Mr Bob Ayling, BA chief executive, said: "We will need time to fully evaluate the proposals and if they meet with the approval of everyone, including the cabin crew themselves, then BA will seek to move matters forward as quickly as possible." *Andrew Bolger*

■ STERLING STRENGTH

Steel chief attacks government

Sir Brian Moffat, chairman and chief executive of British Steel, yesterday criticised the government for failing to do enough to stem the rise in sterling. Sir Brian said at the company's annual meeting: "We support the government's battle to keep inflation at low levels but believe it is unrealistic to put virtually all the pressure for these actions on interest rates when governments of other EU member states are using fiscal policy rather than interest rates as their response to the threat of inflation."

Sir Brian warned that sterling's strength was putting pressure on the company's margins and impairing the competitiveness of many of its UK customers, who were exporters. The threat to exports would in turn bring further threats to jobs, he said. British Steel was last year the UK's fourth biggest exporter, with exports of £2.7bn ($4.50bn). *Stefan Wagstyl*

■ MONETARY UNION

National debate urged

The Trades Union Congress yesterday urged the government to lead a national debate on European monetary union and welcomed the positive shift of emphasis by the Confederation of British Industry, which this week advised the government to make an early pledge to take Britain into Emu. Mr John Monks, general secretary of the TUC, said the argument about Emu shifted in favour of British entry with each upward jolt in the value of the pound. The TUC called on the government to help bring down the value of sterling to a "realistic and competitive" rate of nearer DM2.50 compared with its present level of DM3. It said the high level of the pound was "already having a damaging effect on the export sector ... with an overvalued currency threatening major job losses in many of the export industries". Mr Monks said: "We are now attracting hot money because of a combination of high interest rates and the fact that we are unlikely to be in the first wave of membership of Emu, if the project goes ahead on time." *Andrew Bolger*

■ STOCK EXCHANGE

Electronic trading plan approved

One of the last hurdles to introducing electronic order-driven trading of FTSE 100 shares was cleared yesterday when the plan drawn up by the London Stock Exchange was approved by the Securities and Investments Board, the main regulator in the City of London. But SIB warned that if the exchange's regime for trading blocks of shares away from the order book led to the main market being undermined, it would press the exchange to introduce fresh incentives for its use.

Order-driven trading, under which investors and brokers can place bids and offers for shares on an electronic order book that will appear on all traders' screens, is due to be introduced by the exchange on October 20.

● The government's plans to bring the regulation of UK financial services under one roof took shape yesterday with confirmation that the planned super-regulator would also take responsibility for insurance and mutually owned savings and loans institutions. *John Gapper*

■ DEVOLUTION

Rethink pledged on Scottish MPs

The government will today pledge to look again at Scotland's over-representation of MPs in parliament – 72 out of 659 – as it launches the most significant part of its proposed overhaul of the UK constitution. A policy paper on devolution will set out the transfer of legislative and administrative powers to e new parliament in Edinburgh, which is almost certain to be epproved by voters in Scotland in a referendum on September 11. It will make clear that responsibility for negotiating with the European Union will remain firmly in the hands of ministers based in London. *John Kampfner*

■ BEEF CRISIS

Sharp fall in number of BSE cases

A sharp fall in cases of "mad-cow" disease among cattle was reported in the latest progress report on BSE from the agriculture ministry. The report said "a continued improvement is expected for the future". The number of clinically suspect cases at June 30 this year was 56 per cent lower than the same time last year and 70 per cent down on 1995.

Mr Jack Cunningham, the government's chief agriculture minister, said the figures showed "the measures taken so far are having a dramatic effect on numbers of BSE cases". *Maggie Urry*

Grumbling designers enlisted to modernise nation's image

But the community has an uneasy relationship with business, writes Alice Rawsthorn

Designers and architects often fight for the attention of prospective patrons, but at a reception for the design community this week, Mr Tony Blair, the prime minister, pointed to Mr Peter Mandelson, his special adviser, saying: "If you've got any ideas for the millennium dome, tell him."

The gathering included architects and designers from the worlds of fashion and industry including Mr Ron Arad, Mr Tom Dixon, Mr Ozwald Boateng, Mr Nigel Coates, Mr Jasper Conran and Mr Ross Lovegrove.

Mr Blair made it clear he had invited them because he wanted to use their talents. Showcasing their work in the millennium dome – the London exhibition centre to celebrate the year 2000 – is one thing but if the Labour government intends to exploit design's full economic potential, it must also address the complex issue of design's uneasy relationship with the financial and corporate sectors.

British designers have long grumbled about being neglected in their own country. There are dozens of examples of highly educated Britons whose talents are exploited abroad: from Mr John Galliano and Mr Alexander McQueen, chief designers at Christian Dior and Givenchy, the Paris fashion houses, to industrial designers such as Mr Jasper Morrison and Mr Lovegrove, most of whose clients are German and Italian companies.

Until now, successive governments have done little more than listen to the complaints. This week's reception – initiated by the prime minister's policy unit after discussions with the Design Council, the publicly-funded body which promotes UK design – was intended to signal Labour's determination to act.

Mr Blair, who highlighted tha economic importance of the creative industries in an article in the Guardian newspaper on Tuesday, has identified three projects for which he plans to harness the UK's design resources.

One is the millennium dome, and another includes the international events – such as G7 summits – that the UK will host over the next three years. He sees them as showcases for contemporary design and other creative sectors, such as film, music and multimedia. The third priority is to improve the design of airports, railway stations and terminals which define foreign visitors' first impressions of the UK.

The three projects will be the subject of brainstorming sessions organised by the Design Council this autumn.

Many of those present at this week's reception will be invited to attend, with the aim of producing practical proposals for the prime minister's office.

Image makers: Jasper Conran, Oswald Boateng and Ron Arad

Spotlighting designers at highly publicised international events should provide welcome publicity for them and help Labour's efforts to modernise Britain's tweedy traditionalist image. Spain successfully deployed a similar strategy at the 1992 Barcelona Olympics as did France at tha 1989 bicentennial celebrations.

But these initiatives may simply succeed in making British designers appear more attractive to foreign companies. There is no guarantee it will become easier for John Galliano to secure investment to operate in the UK, or for Jasper Morrison to win commissions from British companies such as the DM500m ($277.7m) tram system he recently completed in Germany.

To tackle these problems, the government needs to embark on a long-term exercise of encouraging the City of London and industry to adopt a more imaginative approach to design.

There are some encouraging signs. The UK's image is being examined with a view to an overhaul and Demos, the think tank, will publish a study on the subject this autumn.

Mr Mark Fisher, the arts minister, is looking at ways of improving public eector procurement. His department has asked the Design Council for advice on developing a new identity to mark its name change from Heritage to Culture, Media and Sport, hoping to set an example for other departments.

This week's reception proved that Mr Blair has the will to exploit design more efficiently. He must now find the way.

Alice Rawsthorn is a member of the Design Council

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ARTS

Cinema/Nigel Andrews

Clowns beneath the tears

Movie titles with exclamation points can spell doom, like unfunny jokes which need extra emphasis. One exclamation point was bad in *Star!* Two were worse, but Spanish punctuation demanded them, in *¡Queimada!* Now there are three in *Love! Valour! Compassion!* The viewer picks them out of his body like darts before settling down to watch a filmed play about Aids, death and bearing up.

Terrence McNally's off-Broadway ensemble piece doesn't need the strident title, even if the stridency is ironic. It is two hours of American Chekhov in which eight gay friends meet in a lakeside New England *dacha* over three holiday weekends.

Gregory (Stephen Bogardus), a "brilliant choreographer", lives in the rambling manse with his blind boyfriend (Justin Kirk). To it come the supercilious English composer and his Latin hunk of a lover, the long-married gay couple, the high-camp jester careless of his Aids death sentence (played by squat, scrunch-eyed Jason Alexander of TV's *Seinfeld*) and finally the Brit's angelic, also-dying twin brother.

Any more artfully ravishing pathos and we could expect the next visitor to be Giacomo Puccini, setting it all to music. Instead the audience escapes with virtue largely intact since director Joe Mantello keeps the volume low and the pace cunningly slow. After a gauche prelude cross-cutting convergent car journeys, complete with obligatory shot of an old farmer on a tractor shaking his head as one gay roadster speeds by, we slip like skinny-dippers into the cool, refreshing one-liners. And there is plenty of that (skinny-dipping): *caveat* Aunt Edna.

McNally, who wrote *The Ritz* and *Frankie And Johnny*, has a talent for choreographing busy casts and letting each member have his stand-out solos. His comic skills, though, spend much of their time apologising for his excess pathos. This play is steeped in communal self-pity, placing gay characters in a ghetto no less oppressive for its volitional air of privileged tragedy than previous ghettoes have been for being on the receiving end of bigotry and persecution.

There is wonderful comic dialogue – "Is there a British equivalent for machismo?", one of twins is asked; "No; oh, maybe Glenda Jackson" he replies – but it keeps behaving like a rescue cavalry. In Chekhov, comedy and tragedy are in symbiosis; they do not operate as a checks-and-balances system. Here we know that every time seriousness threatens – the blind boy's moment of passion with the hunk, the death of an offscreen loved one – the epigrams will follow close behind. For all gay people are clowns beneath the tears, at least in pieces like this, forever doomed to ensure that the Show Goes On.

★

The title town of the charmingly wheezy comedy *Palookaville* is on no map of New Jersey. It is the one-way-ticket dystopia mentioned in Marlon Brando's "Coulda bin a contender" mumblings in *On The Waterfront*. No one comes back from there, least of all Sid (William Forsythe), Russ (Vincent Gallo) and Jerry (Adam Trese), three no-hopers whose flirtation with crime begins with a burgled pastry shop – they broke in thinking it was a jeweller's – and ends with two fiascos involving a bank and a security van.

A producer called Pasolini (Uberto), three source stories by Italo Calvino and a Fellini-ish score by Britain's 1997 Oscar-winner Rachel Portman tell us the tone: shambling neo-realism. But it is beautifully done. Sid is a love-bruised loner who lives with his dogs. Russ is an Italian firecracker experiencing early burn-out. And Jerry is a henpecked newlywed who has to apologise to the supermarket manager he punched for harassing (indeed for all but raping) his wife, just so that she can get her awful job back.

Everyone is distracted from the main business of life by not knowing what exactly it is. Survival? Love? Money? First-time feature director Taylor has an eye for glum colours, poignant cul-de-sac settings and vivid supporting characters: not least Russ's Medusa-haired mother, who looks as if she was once runner-up in an Anne Bancroft lookalike contest. When she breaks off a family quarrel at the dinner table with a primal cry of "I'm gonna miss *Wheel of Fortune*," it is the most perfectly witty moment in the film. Life in New Jersey never gets any better than a good TV show. If it did, people would be up and away from New Jersey.

Broken English is another tragicomedy about waking up to find yourself in the wrong postal area of Life. This time it is Palookaville, New Zealand. The proud Croatian father (Rade Serbedzija) rules with a rod of iron, or rather a free-swung baseball bat, over his two wilful daughters. Both are of marriageable age though waitress Nina is not of marriageable disposition. When she flings herself at the handsome young Maori chef (Julian Arahanga), a battle of wills, cultures and conflicting male proprietorships ensues.

Like *Once Were Warriors*, the film suggests that New Zealand is a race war waiting to happen, though more races than we thought are lining up for weapons. The funniest scene is a contest between two loud, adjacent garden parties – one Maori, one Croat – in which ethnic tensions splutter as fiercely as the pig spitted by the ex-Yugoslavians. ("I'll show you what Turks did to our people," Dad is heard saying as he shoves the rod up the porker.) There is much deft comedy, laced with a little terror in every scene where Rade Serbedzija appears, an actor with a frown like Mars, a beard like Zeus and a soaring power pylon in his backyard whose symbolism needs no spelling out.

Also fierce, funny and Antipodean is *Idiot Box*, a sort of "Beavis and Butt-head do Australia" in live action. Ben Mendelsohn and Jeremy Sims play the Sydney retards, two ebullient teenagers who swear, drink and talk dirty but can never quite muster the will or the *nous* to do anything. Such as, for example, ask a girl out, buy a television or rob a bank.

It all ends in tears or worse, and more portentously than the film deserves. Writer-director David Caesar excels at alternating the manic with the meditative; the leads are excellent; and Graeme Blundell and Deborah Kennedy make a fine pair of maladroit detectives. "What does that tell you?" asks Blundell, stabbing the last coloured pin into a map showing a broad-spread robbery pattern. "They've got a fast car?" replies Kennedy.

The must-miss movie of the week is Martine Dugowson's *Portraits Chinois*: one of those French films in which everyone takes turns to love everyone else, across a large social spectrum of Paris, and the audience needs a pocket calculator to keep track and miraculous intervention to care.

Helena Bonham Carter speaks French as English-born design assistant Ada, thus enabling her to exchange sub-Godardian dialogue with the non-dairy cream of modern French acting. Faces from a hundred noted Euro-puddings pass by, but the movie still tastes like something pre-cooked from a bad cafeteria.

LOVE! VALOUR! COMPASSION!
Joe Mantello

PALOOKAVILLE
Alan Taylor

BROKEN ENGLISH
Gregor Nicholas

IDIOT BOX
David Caesar

PORTRAITS CHINOIS
Martine Dugowson

Careless of his death sentence: Jason Alexander as the high-camp jester in 'Love! Valour! Compassion!'

Theatre/**David Benedict**

Austere affair

What is it with San Tropez in the winter? Claude Chabrol's 1968 film *Les Biches*, an overrated examination of a modern love-triangle made up of long, lingering looks, was set there in December. Marguerite Duras's *Suzanna Andler*, a similarly three-sided affair, was written at the same time and has precisely the same location.

Suzanna (Julie Christie) is considering renting an eight-bedroomed holiday home on the coast for a month. It costs FFr1m but her husband Jean is a millionaire, so why is she vacillating? For the first time in her life she has taken a secret lover.

Michel (Aden Gillett) has told her, "This is going to be an unimportant affair, not a grand passion," but seven months later they are still stealing moments together and Suzanna finds herself at some kind of crossroads. As the two of them admit (a shade implausibly) this is the first time they have ever discussed their past, we realise what Duras is up to. In true existentialist fashion, her characters have lived solely for the present, but now they must face both past and future.

The moment Catherine Milliken's wistful woodwind music threads its way through the silence at the opening of Lindy Davies's revival, you know exactly what you are in for. Her suggestive chamber score has an austere, desiccated feel. As the comedy act Trevor and Simon would put it, "Mr Gloom is in the room". Duras, alas, is not famous for her jokes.

It is all rather like a French version of an Anita Brookner novel, but instead of wearing Jean Muir and considering lost love over a Rich Tea biscuit, Julie Christie remains wrapped in a heavy, protective black coat, pacing and prowling around Johan Engel's stripped-back, darkly elegant set atmospherically lit by Nick Beadle.

The undervalued Julie Legrand, looking for all the world like Meryl Streep reprising an Eve Arden role, puts in a sharp appearance as Jean's sometime lover and Gillett does what he can with the cipher-like Michel, but the play stands and falls on Suzanna.

It was Lindy Davies who persuaded Christie to make her British stage debut in her tremendous revival of Pinter's love triangle, *Old Times*. *Suzanna Andler* shares that play's preoccupation with secrets and lies, but where Pinter brilliantly creates a forward momentum while unravelling a mysterious shared past, Duras merely poses conflicting positions. *Old Times* capitalised on Christie's screen gift of being tantalisingly remote; but here, although her character is described as "unknowable", that is not quite the same thing. Every calibration of feeling has clearly been plotted, but they are all so carefully presented you never become engaged.

It looks like a great part, but in fact it's just a long one. By the interval, your patience with her indecision is wearing thin; by the end, I'm sorry to say, mine had worn out completely.

At the Minerva Studio, Chichester.

Mr Gloom is in the room: Aden Gillett and Julie Christie in 'Suzanna Andler' Alastair Muir

Drottningholm Festival/**Andrew Clark**

The first Euridice

In our age of going back to sources, you can't get much more original than the first surviving opera. Jacopo Peri's *Euridice* was performed in Florence in 1600 – seven years before Monteverdi presented his version of the Orpheus myth in Mantua. *Euridice* has just been revived at the Drottningholm court theatre near Stockholm, in a controversial production which tries to marry musical authenticity to an arty modern staging.

In recent summers, visitors to Drottningholm have been treated to the repertoire associated with its golden era at the end of the 18th century. The programming of operas commissioned or seen by Sweden's King Gustav III had an authenticity of its own – matching period instruments and original stage machinery to the works for which this faithfully preserved little theatre was intended.

This year marks a change. Per-Erik Ohrn, Drottningholm's new artistic director, has gone back to an earlier era, with two works offering contrasting approaches to an identical story. *Euridice*, the first surviving stage work to employ continuous music, follows the 16th century tradition of pastoral drama – the aim of which was to entertain while encouraging a few tears along the way. Next month Drottningholm will stage Luigi Rossi's flamboyant tragi-comedy *L'Orfeo* (1647), illustrating how far and fast opera developed in its first 50 years.

Peri is Credited with "inventing" opera. Before he came along, court entertainments took the form of a *commedia* with spectacular musical interludes. Peri was a leading light in a decade of dramatic experiments at the Medici court, and *Euridice* marked its climax. But the work was too intimate to impress an audience eager for spectacle, and Florence reverted to what it knew and liked best.

To make the Orpheus myth acceptable for a Medici wedding celebration, Peri dropped the tragic ending and substituted a scene of infectious joy in which Orpheus and Euridice are reunited on earth. Otherwise, the most striking feature for late-20th century ears is Ottavio Rinuccini's libretto: it is a poetic masterpiece, repaying attention not just for the beauty of its language, but the way it invites music. Within the style of melancholy arioso, Peri's score could hardly be more affecting: emotional truthfulness and lyrical delicacy move hand in hand. But until the fifth and final scene, it suffers from one fatal flaw – unvaried pace.

Or so it seemed at Drottningholm. Peder Freiij's featureless tunics bathed the cast in grey uniformity, broken only by Pluto's outrageous Father Christmas outfit. Karl Dunér's staging further diluted individual personality by draping the action with robotic arm-gestures à la Bob Wilson, and the "choreography" was incorrigibly precious – exactly what the music is not.

There was one inspired *coup de théâtre*: for the central scene in Hades, the pastoral flaps lining the stage were withdrawn in favour of flame-red screens, while Venus and Orpheus descended on a cloud. It looked sensational. Otherwise, the sole prop was a stool, from which Orpheus and his entourage held forth like moody teenagers.

And it was Joe, the schizophrenic adolescent from the television soap opera *EastEnders*, who kept coming to mind whenever Fredrik Strid's Orpheus was on stage. Boyish and glum, he was outshone by Jeannette Köhn's statuesque Euridice, about whom my only complaint was that Peri gave her so little to sing. The big set-pieces were all written for other voices – notably Christina Falk's eloquent Dafne and Rodrigo del Pozo's dignified Arcetro. Best of all was Stephen Varcoe's bell-and-fire Pluto, who sang as if he meant every word, without deviating from impeccable period manners.

Full marks, too, to Jakob Lindberg, pillar of our own Royal College of Music and editor of the score, for coaxing such a colourful plume of sound from his 13-piece orchestra. Leading the way with his own contributions on chitarrone, he underlined the harmonic adventurousness of Peri's music, as well as its gentle passion.

Despite my reservations about the staging, I felt nothing but pleasure to be back at Drottningholm. The theatre itself is a marvel – not just for what you learn about how a court opera looked 200 years ago, but for the democratic way it works. With fulsome state support and sponsorship from Shell Sweden, Drottningholm is free of the snobbery that would attach to such an operation in the UK. Prices are affordable and the performance is of festival standard. That's "people's opera" for you.

INTERNATIONAL ARTS GUIDE

AMSTERDAM

EXHIBITIONS
Van Gogh Museum
Tel: 31-20-570 5200
Second of four summer exhibitions of drawings by Van Gogh. This time it is the turn of the works produced when the artist lived in Nuenen, 1883-1885. The exhibition is shown in two parts, with a changeover on Aug 18; to Oct 12

DROTTNINGHOLM

OPERA
Drottningholms Slottsteater
Tel: 46-8-4570600
Orfeo: Swedish premiere of Luigi Rossi's 1647 version of the legend of Orpheus. The producer is Jack Edwards, the musical directors Stephen Stubbs and Paul O'Dette. With the Drottningholm Theatre Ballet and Orchestra; Aug 2, 5

LONDON

CONCERTS
BBC Proms, Royal Albert Hall
Tel: 44-171-589 8212
● BBC National Orchestra of Wales: conducted by Mark Wigglesworth. Programme includes David Sawer's *the greatest happiness principle*, Bartók's Piano Concerto No. 3 with pianist Stephen Hough, and Sibelius's Symphony No. 2 in D major; Jul 31
● BBC Symphony Orchestra: and Singers conducted by Leonard Slatkin in works by Mahler, and world premiere of Roger Reynolds' *The Red Act Arias*; Aug 4
● Bournemouth Symphony Orchestra: conducted by Yakov Kreizberg in works by Mozart, Korngold, Markevitch and Stravinsky. With violin soloist Gil Shaham; Aug 5
● Jiří Bělohlávek: conducts the BBC Symphony Orchestra and Chorus in works by Brahms, Chopin and Schubert; Aug 1
● Royal Scottish National Orchestra: performs works by Glinka, Prokofiev, Tchaikovsky, and the UK premiere of Giya Kancheli's Symphony No. 3. With violinist Tasmin Little and counter-tenor David James. Conducted by Alexander Lazarev; Aug 3
● The Mecklenburgh Opera company: *performs* Mahagonny-Songspiel and The Seven Deadly Sins by Kurt Weill. The programme is completed by a selection of German cabaret songs; Aug 3

DANCE
London Coliseum
Tel: 44-171-632 8300
● The Kirov Ballet: Fokine Programme 1 – first of two programmes staged by Isabelle Fokine, the choreographer's granddaughter; Jul 31; Aug 1, 2
● Romeo and Juliet: presented in the original version by Leonid Lavrovsky, set to Prokofiev's score; Aug 4, 5

SALZBURG

Salzburg Festival
Tel: 43-662-844501
CONCERTS
● Philharmonia Orchestra: conducted by Kent Nagano in works by Messiaen, Pintscher and Debussy; at the Felsenreitschules; Aug 1
● Philharmonia Orchestra: conducted by Kent Nagano in works by Messiaen, Pintscher and Debussy; at tha Felsenreitschule; Aug 1
● Philharmonia Orchestra: conducted by Bernard Haitink in works by Mahler; at the Grosses Festspielhaus; Aug 3, 4

OPERA
● Boris Godunov: by Mossorgski. Conducted by Valerie Gergiev in a staging by Herbert Wernicke. Samuel Ramey sings the title role. Cast also includes Philip Langridge. With the Vienna *Philharmonic, the* Konzertvereinigung Wiener Staatsopernchor and the Slowakischer Philharmonischer Chor Bratislava; at the Grosses Festspielhaus; Aug 3
● Die Zauberflöte: by Mozart. Christoph von Dohnányi conducts a new production by Achim Freyer. With the Vienna Philharmonic and the Konzertvereinigung Wiener Staatsopernchor; at the Falsenreitscule; Aug 2

THEATRE
● Der Alpenkönig und der Menschenfeind: by Ferdinand Raimund. Revival of Peter Stain's production, with sets by Ferdinand Wögerbauer. With music by Wenzel Müller; at the Landestheater; Aug 1, 2, 3
● Jedermann: by Hugo von Hofmannsthal. Revival of Gernot Friedel's production, designed by Imre Vincze; at the Domplatz; Aug 4
● Libussa: by Franz Grillparzer. *New production directed by Peter* Stein, with sets by Moidele Bickal. Libussa is played by Dörte Lyssewski; at the Perner-Insel; Aug 1, 2, 3, 5

SANTA FE

OPERA
Santa Fe Opera
Tel: 1-505-986 5900
● Arabella: Janice Watson sings tha title role of Strauss's opera, in a new production directed by John Cox. The conductor is John Crosby; Aug 1
● Cosi Fan Tutte: Kannath Montgomery conducts Mozart's opera, sung in English, in a new production directed by Nicolette Molnar and designed by Bruno Schwengl; Aug 2, 5
● La Traviata: Linda Brovsky directs this new production of Verdi's opera, set in tha Parisian demimonde. Christopher Larkin conducts; Aug 4
● Semele: new production of Handel's opera, conducted by John Nelson and directed by John Copley. Elizabeth Futral sings the title role; Jul 31

SCHLESWIG-HOLSTEIN

CONCERTS
Music Festival
Tel: 49-431-567080
● Musica ad Rhenum: in works by Bach and Handel; at St. Nicolaikirche, Lüneburg on Jul 31 and at the Dom, Meldorf on Aug 1
● Philharmonia der Nationen: conducted by Justuz Frantz in works by Rossini, Mendelssohn, Respighi and Verdi; at the Rinderstall, Haseldorf on Aug 5; at the Schloss, Kiel on Aug 6; at tha Musik- und Kongresshalle, Lübeck on Aug 7
● Taverner Consort & Players: conducted by Andrew Parrott in a programme including works by Bach; at St. Marien-Kirche, Lübeck on Aug 4 and at St. Michaelis Kirche, Hamburg on Aug 5; Aug 4, 5

TANGLEWOOD

CONCERTS
Tanglewood Festival
Tel: 1-617-931 2000
● Boston Symphony Orchestra: conducted by Seiji Ozawa in works by Beethoven and Berlioz. With piano soloist Arcadi Volodos and tenor John Aler; the Shed; Aug 1
● Boston Symphony Orchestra: conducted by Richard Westerfield in works by Lieberson, Saint-Saëns and Rachmaninoff. With violin soloist Joshua Bell; tha Shed; Aug 2
● Boston Symphony Orchestra: conducted by Seiji Ozawa in works by Barber and Mahler. With soprano Barbara Bonney; the Shed; Aug 3
● Boston Symphony Orchestra: and Tanglewood Music Center Orchestra conducted by Seiji Ozawa, Leon Fleisher, Keith Lockhart and John Williams in a programme which includes Tchaikovsky's 1812 overture; the Shed; Aug 5

VERONA

OPERA
Arena di Verona
Tel: 39-45-800 5151
● Aida: by Verdi. Conducted by Nello Santi in a staging by Gianfranco de Bosio, revived by Susy Attendoli. Casts vary; on Aug 1, 10 & 15 Maria Guleghina sings the title role
● Madama Butterfly: by Puccini. New production. Conducted by Angelo Campori, with designs by Beni Montresor; Aug 2

WASHINGTON

CONCERTS
Wolf Trap Tel: 1-703-218 6500
● National Symphony Orchestra: conducted by Zdenek Macal in a programme of works by Tchaikovsky; Aug 1
● National Symphony Orchestra: conducted by Zdenek Macal in Verdi's Requiem, with the Choral Arts Society of Washington; Aug 2

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10.00
European Money Wheel

18.00
Financial Times Business Tonight

Thaw pierces the Aegean chill

Greece's premier wants better relations with Turkey, say **Edward Mortimer** and **Kerin Hope**

"Slowly but surely" could be the motto of Mr Costas Simitis, Greece'a socialist prime minister. This appliea equally to his modernising of the Greek economy as to his building on the groundbreaking agreement reached with President Suleyman Demirel of Turkey a fortnight ago at the Nato summit in Madrid.

The agreement with Turkey – reached with US encouragement – to eschew the use or threat of force has transformed the atmosphere between two nominal allies, which only last year came to the brink of war.

One year after the death of his unpredictable predecessor, Andreas Papandreou, Mr Simitis looks increasingly salf-confident. His pragmatic style contrasts with that of Papandreou, a leftwing economist and founder of the governing Panhellenic Socialist Movement (Pasok). Papandreou was always quick to exploit Greek insecurity about its larger and historically dominant Turkish neighbour.

"Our economic, social and political structures in recent decades largely reflected defensive attitudes born of an isolationist and protectionist mentality," Mr Simitis says in an interview, obliquely criticising his predecessor.

To be fair, Papandreou did once try for a rapprochement with Turkey when he established a personal rapport with the late President Turgut Ozal during the world economic forum at Davos in 1988. But on thet occasion tbe much-vaunted "Davos spirit" of reconciliation proved short-lived.

Mr Simitis believes that Davos falied becanse too much was attempted too quickly. Insufficient attention was paid to detail: a mistake he is determined not to repeat this time.

"In Greek-Turkish discussion every word is important," he says, intervening in English to correct the Oxford-traioed economic adviser summooed to translate. And that, be explains, is why Greece is proceeding "safely not quickly" with the next step in the reconciliation process to be taken under European Union auspices by a bilateral team of experts. "I want a result, not just discussions that will end up, as in the past, in disagreement," he adds.

Costas Simitis: 'In Greek-Turkish discussion every word is important'

Greece and Turkey have been at odds for years over sovereignty and economic rights in the Aegean waters surrounding hundreds of Greek islands, some of which lie only a few miles off the Turkish coast. The most contentious issue concerns the continental shelf, which is believed to contain valuable oil deposits.

On the very day that Mr Simitis took office last year, the two countries came close to fighting over Imia, an uninhabited rock in the south-eastern Aegean. It took the intervention of Mr Richard Holbrooke, the top US troubleshooter, to avert a military clash.

As a result, Greece is still blocking an Ecu375m (£244m) financial package promised to Turkey under its customs union agreemeot with the EU. Mr Simitis insists that, before a dialogue, Turkey must eitber agree that it does not dispute Greek territory anywhere in the Aegean, or submit any outstanding claims to the World Court.

He also took a firm line on Cyprus, an issue not mentioned in the Madrid declaration although it stirs more feeling in Greece and Turkey than any other bilateral problem. Turkey, which sent troops to the island in 1974 to secure a separate enclave for the Turkish Cypriots, does not recognise the Greek administration in southern Cyprus as a legitimate government. But Greece is energetically sponsoring that government's application for inclusion in the next wave of EU members.

Separate UN-sponsored negotiations between the island's Greek and Turkish communities took a step forward when their leaders met in upstate New York earlier this month. But that process could be "rendered useless" by the EU's intention to open accession talks witb Cyprus early next year, according to a tough joint statement issued earlier this week by Mr Rauf Denktash, the Turkisb Cypriot leader, and Mr Bülent Ecevit, Turkey's deputy prime minister.

Mr Simitis insists the accession procedure will go ahead "no matter what reactions there might be from the Turkish side". Efforts to solve the political problem will continue in parallel. The accession procedure will take years "and we shouldn't hasten to determine now what should happen then," he says.

But he refuses to rule out the possibility that Greece would veto other candidates for membership in an enlarged EU if, in the end, its partners refused to permit the entry of a still-divided Cyprus. "Greece will use all means that are on offer within the framework of the European Union to achieve what it considers to be right," he says.

More pressing problems confront Mr Simitis at home, where he expects the coming winter to bring a renewal of widespread social protests as he pushes ahead with attempts to bring Creece's economy in line with European competitors.

Mr Simitis has given priority to meeting the Maastricht convergence criteria for eventual membership of the proposed single European currency. He knows that better relations with Turkey would help, by enabling Greeca to cut its inflated defence budget and encouraging foreign investment.

But he fears that any hasty move in that direction could provoke a revival of nationalist passions at a time when he already faces entrenched opposition from powerful interest groups opposed to economic reform.

Notwithstanding the prime minister'a efforts, Greece is the only EU member that will be unable to reach any of the Maastricht targets for joining the euro hy the end of this year. It hopes to qualify for a possible second wave of entrants by hitting the targets next year or in 1999.

Inflation has fallen but, at an annual 5.5 per cent, is still more than three times the EU average. While Greece is on track to reduce the budget deficit this year from 7.4 per cent to 4.2 per cent of gross domestic product, the Maastricht 3 per cent target is still some way off.

Stung by the charge that he has so far failed to slim down the public sector, which is seen as his party's main power base, Mr Simitis claims to have made important strides in liberalising Greece's telecoms and energy markets. Bnt he admits there is much still to he dooe, not least the restructuring of Olympic Airways, the troubled state carrier which has failed to implemant reforms agreed more than two years ago with the European Commission.

There is oothing flamboyant or even charismatic about Mr Simitis. Yet be has something in common with Mr Tony Blair, the UK prime minister, in that he has reshaped an old-fashioned socialist party by pushing through policies that would have been bitterly opposed just a few years ago. But Mr Simitis emphasises that "in other respects we are closer to the French Socialists, for example in taking measures to benefit low-income pensioners and the unemployed".

Either way, it is clear that Mr Simitis wants to leave behind Greece's third world socialist tradition of the past. Instead he wants to be judged by the standards of western European social democracy.

LETTERS TO THE EDITOR

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Gold has lost some glister in the modern world of central banks

From Mr Ludwin Fischer.

Sir, The FT Guide to Gold (July 21), though informative, does not seem to be in tune with the times. In view of the recent central bank gold disposals alluded to by Robert Chote, his ensuing atatement that most central bankers are still reluctant to dispose of an asset considered a hedge against inflation (what inflation?) and not someone else'a liability sounds like playing Glenn Miller to Techno-eager kids.

As he correctly points out, by having sold more than two-thirds of its gold reserves Australia's Reserve Bank acted like an ordinary investor. And so are the other central banks which are modernising the management of their reserve portfolio, including those of the "really big stockpilers".

A prime example is the recent Swiss National Bank law reform, geared to increase asset revenue by revaluing gold reserves closer to market price, allowing a higher proportion of foreign exchange reserves, the use of derivatives in their management and reducing gold coverage of circulating money from 45 to 25 per cent (a revision bearing no link to the funding of the Solidarity Foundation).

Similarly, Mr Chote omits mention of the recent controversy in Germany over the proposed sale of part of its gold reserves to meet the Maastricht deficit criterion. Perhaps it won't be too far-fetched to expect some mega nails in gold'a coffin in the not-too-distant future.

Ludwin Fischer,
9, place Grenus,
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Switzerland

Threat to gas group's ability to plan

From Mr David Varney.

Sir, Mrs Margaret Beckett, the UK secretary of state for trade and industry, has said that the Department of Trade and Industry's forthcoming review of the regulation of the utilities industries will be guided by the principles of transparency, consistency and predictability, with enhanced accountability. Rightly, she observed thet predictability is required for the "smooth operation of the industries themselves and to allow a sound basis for long-term planning".

The consultation process of the price control for Transco, BG's pipeline subsidiary, is a timely reminder of the difficulties which the regulated utilities are encountering in achieving predictable outcomes from the regulatory process. On June 18, the results of the Monopolies and Mergers Commission's lengthy inquiry into future price regulation of Transco were published.

The MMC's recommendations were accepted by BG and Ofgas as the basis for a settlement – the "umpire's decision" – after both sides had fully assimilated the MMC's report.

Yet, in the subsequent consultation paper on the draft licence conditions giving effect to this settlement, Ofgas proposes to depart fundamentally from the MMC's recommendation in a way which would transform the incentive-based character of these recommendations. Significantly, Ofgas itself had previously strongly rejected the modification it now proposes.

The new government inherits regulatory arrangements for the utility industries in which some regulators are required by statute to implement MMC recommendations in full while others retain discretion. We look forward to this source of inconsistency and unpredictability being addressed in the DTI review.

David Varney,
chief executive,
BG,
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A very unlikely, and unpalatable, meal

From Mr Peter Seilern.

Sir, In the article by Simon Kuper and Andrew Fisher, "Germany seems unlikely to halt D-Mark's slide" (July 21), they quote a Mr Brian Marber as claiming that, if the German currency's correction was "undoubtedly at an end", as Mr Hans Tietmeyer, Bundesbank president, put it, he, Mr Marber, would eat Mr Tietmeyer's lederhosen. May I point out that the Bundesbank chief, being neither Bavarian nor Austrian, is highly unlikely to be wearing lederhosen. It would be more useful if Anglo- Saxon analysts would delve further into German sartorial habits before making unpalatable proposals.

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Called to book

Travel agents face competition from online services and interactive television, says **Scheherazade Daneshkhu**

Courtesy of Thomas Cook Archives

Before the internet: package holiday founder Thomas Cook (left) and an early brochure

In 1841, Thomas Cook, pioneer of the package holiday, organised an outing by train from Leicester to Loughborough for supporters of temperance in Victorian England. He advertised the trip, despatched invitations and sold the tickets.

Today Thomas Cook, the German-owned travel agency which bears his name, faces a technological revolution which threatens to sweep it and many other companies away. The growth of online booking services and the development of interactive television could, at least theoretically, eliminate the role of the travel agent altogether.

"Users can hypass the travel agent and book direct from suppliers," says Mr Barrie Barnes of Philips Electronics, which last year started manufacturing set-top boxes enabling users to access the internet via their television.

Datamonitor, the management consultancy, forecasts that the value of travel booked online in the UK alone will increase from less than £1m ($1.67m) in 1997 to more than £1bn within five years. Once new technology is established it could quickly drive a fifth of travel agents out of business, according to the Geneva-based International Labour Organisation.

Unlike the banking and insurance industries, direct sales in the holiday industry have been slow to take off. Bnt, although few family holidays are booked over the phone or through the internet, agents acknowledge this is likely to change swiftly once interactive television is fully developed.

Customers will then be able to watch videos of destinations, ask questions about the place and make bookings using their remote control: all without having to stir from their armchair.

But agents say they will not become helpless victims of the transformation. The internet will change the way they do business, they admit, but it will not make them redundant.

Online technology, they say, will rarely be used for anything more complicated than booking an airline or train ticket. "The vast majority of customers [only] want to search [on the internet]," says Mr Mark McCafferty, managing director of Thomas Cook travel. "And as soon as you are searching there is potential for the travel agent" to provide added-value services.

Airtours, the largest international package holiday group, agrees. The internet could replace holiday brochures, but customers will still want to talk directly to an agent when it comes to choosing and booking a holiday, it argues.

That does not mean travel agents will not have to adapt. Going Places, the travel agency arm of Airtours, has just doubled its telesales division in preparation for what it believes will be an explosion of direct sales.

> Travel agents are vulnerable to elimination once contact is established between suppliers – such as airlines and hotels – and the customer

Thomas Cook is hedging its bets by selling holidays in its shops and over the telephone. It also plans to seli holidays and foreign exchange on its internet site within the next two months. Providing a variety of distribution channels is expensive in the short term, but travel agents believe they cannot afford to do otherwise.

Like all intermediaries, travel agents are vulnerable to elimination once direct contact is eatabliahed between suppliers – such as airlines and hotels – and the customer. Airlines, in particular, are looking for ways to cut distribution costs. In the US they have moved strongly to reduce the commission they pay to travel agents, a trend that is spreading to Europe. The evidence from the US shows that small agents are particularly vulnerable.

"Competition from new entrants in the travel industry sucb as network and software companies, the rise of online systems designed to eliminate the traditional travel agent's booking process make it especially difficult to thrive," says Mr Hal Rosenbluth, president of Rosenbluth International, the Philadelphia-based business travel agent. "However, where others see disaster, we see enormous opportunities."

Businesses travel agents, hit by the rise of online bookings, have shown themselves adept at reinventing themselves as "travel managers". Instead of aelling tickets and making travel arrangements, they are charging consultancy fees for reducing the amount client companiea spend on travel.

Carlson-Wagonlit, the joint venture between Carlson Travel in the US and Accor in France, says that it relied entirely on commission for its income 10 years ago; commission now accounts for less than half.

This trend could spread to the leisure market. Mr Ian Reynolds, chief executive of the Association of British Travel Agents, believes that new technology gives agents the opportunity to charge for specialised advice and tailor-made holidays. But the overall cost to the holiday-maker would not necessarily be higher, if airlines reduced fares as commissions paid to agents come down.

"The way holidays are sold will change more in the next five years than in the past 15," says Mr Richard Carrick, marketing director of Airtours. "The industry is in a state of enormous flux."

FINANCIAL TIMES

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Thursday July 24 1997

Asean's mid-life crisis

Leaders of the Association of South East Asian Nations had planned their Kuala Lumpur summit, which opens today, as a celebration of the organisation's achievements since it was formed 30 years ago. Instead, the event seems set to highlight the growing dilemmas confronting the grouping's future.

These have been given prominence by the last-minute decision to delay Cambodia's membership of Asean, after its recent coup. As well as being an embarrassing setback for the grouping's ambitions to act as a unifying force throughout the region, the incident points to important longer-term lessons. The most important is that it has been too preoccupied with broadening membership, when deepening integration should be the priority.

Even before the coup, the decision to admit Cambodia, along with Burma and Laos, looked poorly thought through. No coherent case was made for why the countries had to join so soon; nor, apparently, was much attention paid to the political and economic difficulties their membership would pose. At the least, embracing some of Asia's poorest and most backward countries risks diverting Asean from its key objective of economic liberalisation.

That events took this course may reflect Asean's mutually deferential approach to decision-making. The system is said to preserve cohesion between the grouping's members. But in this case, consensus seems to have been achieved at the expense of clarity of purpose and vigorous debate about the issues. That is a weakness which a grouping with such an important role in regional security and stability can ill afford.

The Cambodia debacle may stimulate fresh thinking. Indeed, the decision to delay the country's membership is a departure from the grouping's long-standing principle of non-intervention in neighbours' domestic affairs. Some influential voices are now calling for greater action to promote political and institutional reforms in the region.

Such an approach would face many political sensitivities and practical problems – not least, how to square it with Asean's embrace of Burma's repressive regime. Nonetheless, it recognises a broader imperative: if Asean is to continue to develop, its members need to move beyond loose co-operation and unite behind more sharply-focused common goals.

Their first priority should be to define a collective role in regional security and to keep up the pressure for economic liberalisation. That will not be easy. But without closer integration, Asean's effectiveness and credibility risk falling prey to growing internal strains. That would not be in the interests of its leaders, or of stability in the region as a whole.

Dearing

Sir Ron Dearing's report on the future of higher education is a major piece of work – as large in scope and with implications at least as profound as those of the Robbins report which helped trigger the first great expansion in UK higher education more than 30 years ago.

It contains much to recommend it. Its central recommendation that students will have to pay towards their tuition has become an inevitability in a world of larger student numbers. Its call for the resumption of growth in higher education, but with much of that growth concentrated below degree level, looks to be the right course. And its call for standards still to be maintained as numbers rise has got to be correct.

The government has accepted the broad thrust of the report, but it has come up with its own scheme for how students should contribute more to the costs of their education.

How far the government's solution is the right one, however, is at present difficult to judge. Where the Dearing report provides pages of analysis of the various options it canvassed, the government has provided none, as yet, for its plans.

Universities, students, parents and employers are left reliant on background briefings that universities should see about an extra £1bn a year from the government's proposals, and that repayment will not start until graduates earn around £10,000 a year.

This is hardly an exercise in the open government which ministers claim to wish to espouse. And while providing the bare bones of the scheme it wishes to adopt, the government yesterday did not address some of the key issues Sir Ron's report raises about any new funding system – its overall impact on the public finances, how the loans are to be treated in terms of government borrowing, and whether Sir Ron is right to judge that securing private finance for them would not provide value for money.

In addition, while pronouncing immediately on one of the longer-term decisions needed, yesterday's statement did nothing to address the short-term issues that the universities face: not least the further cuts in unit costs per student which are built into the government's spending plans. As things stand, the universities calculate this will leave them with a £3bn deficit by 2000.

Given the timetable it plans to follow – an autumn white paper succeeded by rapid legislation to get a new system in place for September next year – the government should provide more details rapidly of what it plans to allow a full assessment to be made.

Asset prices

Following the biannual Humphrey-Hawkins testimony before congress by Mr Alan Greenspan, chairman of the US Federal Reserve, the Dow Jones Industrial Average again scaled new heights. Market confidence reflects what Mr Greenspan left out as much as what he said. He did not repeat his reference to "irrational exuberance", although the stock market has risen 25 per cent since he coined the phrase last December. Nor did he indicate that interest rates would rise next month.

The Fed's job is to stabilise the prices of goods and services in the US economy and minimise the variance in output. It is not Mr Greenspan's job to guide asset prices, particularly since the attempt to do so might destabilise the real economy. For this reason, last March Mr Greenspan ruled out an interest rate rise simply to prick the stock market bubble.

Nevertheless, the chairman will be concerned about the rising stock market. Asset prices can affect real activity, by altering the finances of firms and households and so affecting their investment and consumption decisions. In the upturn, this can lead to excess demand. In a downturn, it can exacerbate the contraction. Consequently, asset prices are a leading indicator of inflation.

Notwithstanding Mr Greenspan's warnings that stable growth and low inflation will not last indefinitely, leaving interest rates unchanged for now seems right, since consumer price inflation remains subdued at present. There is also no sign that high asset prices are filtering through into excessive inflationary pressure.

Nevertheless, it would be a mistake to be too complacent about asset prices. Japanese experience shows that an economy may be destabilised even if consumer price measures appear well under control. Similarly, a sharp stock market correction could cause problems for the US economy.

Yet Mr Greenspan cannot do much to deal with these risks, so long as what the Fed targets behaves so well. It forecasts economic growth at between 3 and 3¼ per cent this year, but expects it to fall to 2-2¼ per cent next year. Given this benign prospect, Mr Greenspan's only option is to continue to warn that the next movement of interest rates is more likely to be up than down.

Should the equity market reverse dramatically, he would have to act vigorously to provide liquidity in the financial markets, as in 1987. At present such an event seems the biggest threat to the enviable record of stable growth that the US economy has achieved under Mr Greenspan's guidance.

Europe's pyrrhic victory

Small concessions do not detract from Boeing's market domination, argues **Michael Skapinker**

If, on the way to an important meeting, you find the road blocked by a threatening driver, do you jump out of the car, trade blows and arrive late and bloodied for your appointment? Or do you give way and, pride slightly wounded, reach your destination on time?

Boeing of the US yesterday decided to give way to Mr Karel Van Miert, the European Union competition commissioner. The US airline made several concessions, including agreeing to remove the exclusivity provisions from 20-year supply contracts with three US airlines – American, Continental and Delta.

Boeing did so because it wanted to avoid disruption to the most important meeting in its 81-year history. Tomorrow, Boeing shareholders meet in Seattle to approve the company's takeover of McDonnell Douglas, which will create the world's biggest aerospace and defence company.

Mr Van Miert's victory has been hailed by fellow European commissioners. The concessions Boeing has made could have some detrimental effects on the future of its business. But these will be small compared with the benefits of the takeover, which will create a $48bn (£29bn) turnover group, with 200,000 employees and a towering presence in civil aircraft and military markets worldwide.

The many European suppliers to Boeing, which include Smiths Industries of the UK, Snecma of France and Alenia of Italy, will be relieved that a damaging trade war has been averted.

But Boeing's concessions will do little to improve the competitive position of Europe's fragmented defence sector or of Airbus Industrie, the European consortium. Nor will Boeing's concessions limit its freedom of action. Its agreement to maintain McDonnell Douglas's commercial aircraft business as a separate legal entity for 10 years will not hamper Boeing should it decide to stop manufacturing Douglas aircraft, leaving it free to persuade airlines to buy its products instead.

Boeing's undertaking to the Commission not to interfere with relations between its suppliers and other commercial aircraft manufacturers is little more than a promise of good behaviour. "We're saying we won't beat our wives, and, by the way, we haven't beaten our wives and we didn't intend to beat our wives," says Mr Richard Albrecht, Boeing's executive vice-president.

Boeing's agreement to drop the exclusivity clauses from the aircraft supply deals could have some effect over the next 20 years. Mr Robert Crandall, chairman of American Airlines, is due to retire by 2001. His successor might decide to buy aircraft from Airbus. Delta is also in the midst of change, with Mr Ronald Allen, its chief executive, set to leave at the end of this month.

But while Airbus could win orders from the three airlines in future years, it will be difficult. The three carriers decided to buy from Boeing because it offered the widest range of aircraft at the lowest prices and because purchasing from a single supplier cuts maintenance and training costs.

Mr Gregory Brenneman, Continental's president, said his airline had also chosen Boeing because it offered better customer support than Airbus.

It is comments such as these which should worry European Commissioners as they celebrate their humbling of Boeing and its supporters in the White House and the US Congress.

Boeing's takeover of McDonnell Douglas is one of several mergers in recent years which have consolidated the US industry, producing a handful of world-class competitors.

Boeing's biggest US competitor, Lockheed Martin, itself the result of a merger, announced earlier this month that it planned to buy Northrop Grumman for $8.2bn.

If the deal wins regulatory approval, the US will have three aerospace and defence giants – Boeing, Lockheed Martin and Raytheon – compared with a dozen large manufacturers at the beginning of the decade.

By contrast, Europe's consolidation of its defence industry has barely started. Mr Manfred Bischoff, chief executive of Daimler-Benz Aerospace (Dasa) of Germany, points out that the US companies have the advantage of only having to deal with one government. Few EU governments are ready to see their arms industries disappear into a pan-European group.

Mr Bischoff argues that Europe should concentrate on reforming Airbus, which could later form the basis of an aerospace and defence group big enough to compete with the Americans.

But the reform of Airbus is not proceeding smoothly. The four companies which own Airbus – Dasa, Aerospatiale of France, British Aerospace and Casa of Spain – agreed earlier this year to turn the consortium into a profit-making company. At present, it is a confederation of the four partners, who make decisions on the basis of unanimity.

Dasa and BAe, which have been pressing hardest for change, argue that, as a single company, Airbus will be able to make decisions more quickly and provide a better level of customer service. Aerospatiale, however, has been dragging its feet, arguing against having to hand its factories over to the Airbus management. Significantly, the French government, led by President Jacques Chirac, was the most strident opponent of the Boeing-McDonnell Douglas merger and led the calls for Mr Van Miert to stand firm.

Now that the skirmish is over, and the EU has won its small victory, the European industry needs to address itself to larger tasks. Above all it must create companies that can challenge the US in the marketplace – and not just in the negotiating chambers of Brussels.

Van Miert's finest hour

The EU's competition commissioner is being credited with taking on the US, says **Emma Tucker**

When Mr Karel Van Miert became European competition commissioner in 1993 there were plenty who suspected that his socialist past would ill equip him for the battles that lay ahead.

But with all the zeal of a convert he has proved his critics wrong. In a crusade to enforce fair competition in the European Union, he has busted cartels, forced liberalisation upon closed sectors and taken a fairly tough line on government subsidies.

Yesterday, came his apogee. The last-minute climbdown by Boeing over its merger with McDonnell Douglas had Mr Van Miert hailed in Brussels as the little guy who took on the US giant – and won.

"You have to hand it to him," says one Commission official. "He took them on and he won. He showed that the European Commission is a force to be reckoned with."

Mr Van Miert has been credited with placing the European Commission at the top of US news bulletins for the first time anyone can remember. "The Boeing case shows that we are just as serious as the US competition authorities, and some would say have done a better job," says one official.

But for all the glory of his victory over Boeing, Mr Van Miert's strategy of pushing the champion US aircraft manufacturer to the limit was risky. There were times when it looked as if he had miscalculated.

He also faces criticism for having tainted the credibility of the EU's Merger Regulation by publicly voicing his concerns about the Boeing deal in what should have been a confidential procedure. After lambasting elements of the merger on a tour of the US earlier this year, it was not long before politicians on both sides of the Atlantic were rushing forward with their views on the deal.

"This case has politicised the Merger Regulation which is the one bit of competition policy that should be kept in an iron cask sealed off from the politicians," says one Commission official. "It has undone a lot of the efforts that have been made over the last few years to give credibility to the Commission's handling of mergers, even if the result is not too bad."

This politicisation could play into the hands of supporters of an independent competition authority for Europe, along the lines of Germany's Bundeskartelamt. But Mr Van Miert's supporters defend his actions in the name of transparency.

"He is a man who believes in accountability and some of us do get nervous," says a Commission official. "But he believes in explaining to people what he is doing and why."

Among those listening – and contributing – to the argument was the French government, chief champion of Airbus Industrie. Some suspect Mr Van Miert of courting favour with Paris, ahead of potentially bruising battles over the restructuring of state-owned bank Credit Lyonnais, the liberalisation of telecoms, energy and transport networks and subsidies to Air France.

But trying to buy favours from the French is a "waste of time", according to one Commission official. "You can secure any number of victories for the French in competition and trade matters, but they are always totally, and unrepentantly ungrateful," he says.

Whatever Mr Van Miert's motivation, there is no disguising his enthusiasm for a good punch-up. Some fear that, fresh from his Boeing triumph, he will turn his energies to other contentious cases: a prospect which bodes ill for companies such as British Airways, which is still awaiting clearance for its proposed alliance with American Airlines.

"I was rather hoping he would get a bop on the nose over this Boeing case," says one airline industry expert. "Now he will probably charge ahead and make unreasonable demands."

It is also unclear how the fallout from the Boeing case will affect relations between the EU and the US when it comes to co-operating on competition affairs.

"We were prepared to address the merger on the basis of concerns for customers, which is the traditional US approach to anti-trust law," says Mr Richard Albrecht, Boeing's executive vice-president. "The approach by the European Merger Task Force seems to be much more concerned with the effect on competitors."

Some fear the Commission's clear defence of Airbus will lead to reprisals. The US authorities also have to clear the BA-AA alliance and are examining the planned merger between Guinness and Grand Metropolitan.

But the potential damage should not be exaggerated. "This was such a hard case that to draw any general conclusions from it is probably dangerous," says one competition lawyer in Brussels. "I think both parties are mature enough to realise that and to recognise that they have got far more in common than separates them."

OBSERVER

Karel gains altitude

■ After Boeing, it seems the sky's the limit for European Union competition chief Karel van Miert. The Belgian commissioner's tenacious campaign against the world's number one aerospace manufacturer has won him powerful friends – especially in Paris, where President Chirac saw the Boeing-McDonnell Douglas merger as a frontal assault on Airbus Industrie. Now he's being talked of in Brussels as a plausible successor to Jacques Santer as European Commission president.

Jockeying for the top job in Brussels will begin shortly, even though Santer still has two and a half years to serve – it's likely to be dragged into the horse-trading next year surrounding the appointment of the president of the proposed European central bank.

Any shortlist will probably include Felipe Gonzalez, former Spanish prime minister; Peter Sutherland, former Irish Commissioner, head of Gatt and top man at Goldman Sachs in London; Giuliano Amato, former Italian prime minister, and Volker Rühe, the ambitious German defence minister, assuming he doesn't succeed Chancellor Kohl.

Three years ago, fellow-Belgian Jean-Luc Dehaene, the favoured Franco-German candidate saw his bid to succeed Jacques Delors torpedoed by a premature leak to the press and a British government veto. Van Miert was relieved: a Dehaene succession would have pushed him out of his job as Belgium's sole EU commissioner. And he wouldn't have entered Brussels folklore as the man who made Boeing blink.

Screen star

■ IBM-watchers think Big Blue's latest management reshuffle contains a strong hint about who might succeed Louis Gerstner as chairman and chief executive – although a change of boss might be some way off, as Gerstner's just 55.

The shake-up moves Samuel Palmisano, head of the PC business, up to senior vice-president in charge of a new division that includes the PC operations, the consumer division, the network computer business and a joint venture with Japan's Toshiba that makes flat-panel liquid crystal displays. At 44, he'll be IBM's youngest top executive.

Palmisano, who joined IBM in 1973, isn't one of the group of executives who've followed Gerstner from American Express through RJR-Nabisco to IBM, but the spectacular performance of IBM's services business is believed to have caught the boss's eye.

Presiding genius

■ Are Benny Gaon's days as chief executive at Israel's sprawling Koor group numbered? This week's move by the Claridge Group to become a 20 per cent shareholder looks ominous for the ebullient Gaon, whose surname means genius in Hebrew. It's understood that Claridge – controlled by Canadian Jewish businessman Charles Bronfman – wants eventually to gain full control.

Claridge is taking strategic advice from hot law firm Herzog, Fox, Neeman. In a recent book, Gaon was less than flattering about the firm's senior partner Jaacov Neeman – recently elevated to be Israel's finance minister. Herzog, Fox, Neeman acted for the consortium of foreign bankers which wrestled with Gaon over the refinancing of Koor when the group was all but bust at the end of the 1980s. Gaon survived that episode. But it seems unlikely he will figure in Claridge's plans.

On the rocks

■ Barclays Bank's ill-fated venture into Greek ship financing ended this week with the transfer of its shrunken loan portfolio to Midland Bank, a more conservative UK player on the Piraeus waterfront. But Nikos Koros, the shipowner who talked Barclays into backing his disastrous shipbuilding venture in Romania in the early 1990s, is still in business – just.

Koros had the bright idea of ordering eight chemical tankers from the state-owned Tulcea yard on the Black Sea. Barclays handed over $120m in loans – about 20 per cent of its total portfolio – to Blue Flag Navigation, the Koros outfit.

But the company couldn't persuade the Tulcea workers to get on with the job. Four years past the delivery date, just two of the eight tankers seem likely to be completed. Koros's 20-ship fleet has now dwindled to half-a-dozen elderly vessels which are trading under new names and no longer fly the Blue Flag banner.

High value

■ Soaraway Dutch blue-chip stock prices seem to have inspired pilots of the national flag carrier KLM. They've offered to cut their pay demands in return for shares. That way they could join the Dutch business-class high-flyers who've seen their guilders multiply in Amsterdam's bull market.

The Financial Times

100 years ago

Insurance Notes
In big type and in small, heading conspicuous advertisements and coming quietly in at the tail-end of minor ones, in season and out of season, the Equitable of the United States is constantly shouting the statement that it is the "Strongest Life Office in the World." We are tired of it. The claim is a piece of pure "bunkum" which would be laughed at if it were made by a small concern; and we see no reason why the absurdity should be allowed to pass merely because it is uttered by a big one. We have no unfriendly feeling to the Equitable, as our columns have borne witness . . . We hope that this objectionable and grotesque statement will now be withdrawn from use.

50 years ago

Shipyards At Busiest
Work in hand at British shipyards is running at the highest level since March, 1922, and actual output – that is, completed vessels – is now expected to reach 1,000,000 tons in 1947. The industry's own "target" was set at 1,500,000 tons but this was based on adequate supplies of steel, timber and other materials. The new output estimate of 1,000,000 tons is based on the assumption that there will be no fuel crisis or other serious development.

FINANCIAL TIMES
Thursday July 24 1997

Polly the cloned lamb can deliver human proteins

Commercial application of technique is nearer

By Daniel Green in London

Polly is a lamb with an eye for the market. Only two weeks old, she has already gambolled ahead of Dolly, her ovine predecessor who made cloning a global household word.

Polly is a clone too. But she has an added ingredient: a human gene.

That gene will produce a human protein in Polly's milk. The protein can be extracted and given to patients who lack it.

The company behind Polly, Edinburgh'a PPL Therapeutics, plans to produce a flock of Pollys, making proteins for a range of diseases from haemophilia to osteoporosis.

Polly is the first transgenic sheep created using cloning technology and represents a crucial step in the commercialisation of the technique.

"This is a realisation of our vision to produce instant flocks or herd which express high concentrations of valnable therapeutic proteins very quickly," said Dr Alan Colman, PPL's research director.

Transgenic sheep have existed for several years; the first was Tracy in 1992. But the technology behind them meant that only in December 1996 did the protein in Tracy-like sheep enter clinical trials, for treating cystic fibrosis.

The cloning method guarantees that every lamb will be female and allows for a flock to be created in a single generation. Proteins produced in Polly-like sheep could enter trials as early as 1999.

The cloning techniqne involves adding a buman gene to the nucleus, which contains the genetic material, of a sheep cell. This cell is fused with a sheep embryo cell from which the nuclens has been removed. The resulting embryo is transplanted into an adult ewe where it grows into a lamb.

Polly earned her nama because she is of the Poll Dorset breed, although her surrogate mother is a Scottish Blackface.

She already has two sisters, but scientists at PPL and the publicly-funded Roslin Institute next door are not yet certain that they also heve the human gene. The next step in the research is to refine the addition of the genes so that they are placed more accurately within the nucleus.

This should increase the amount of protein in the milk and help the techniqne to be applied to cows, which produce much more milk than sheep.

It should also allow scientists to replace rather than just add genes. This is vital to a plan to farm pigs whose internal organs can be transplanted into people.

Roslin and PPL scientists need to remove tha genes that make proteins that make the organ look pig-like to tha human immune systam. Unless the organ look like a human'a, the immune system will reject it and tha patient will relapse. Such "xenotransplantation" is still several years away.

THE LEX COLUMN

Paradigm paradise

Have markets misread Mr Alan Greenspan? His Humphrey Hawkins testimony to Congress has been widely interpreted by investors as a reason to pile into shares and bonds. Certainly he was in a more benign mood than last December when he warned about the dangers of "irrational exuberance". This time he said financial markets were merely "buoyant" – despite Wall Street's near 30 per cent rise in the interim.

Yet it was Mr Greenspan's enthusiastic discussion of the "new paradigm" economy – which assumes US productivity growth has shifted on to a higher trend – that really sparked markets. He remained exquisitely agnostic about the extent to which this has been achieved, but said enough to suggest he thought it credible. The danger, of course, is that Mr Greenspan's frank discussion will be misunderstood. Instead of noting his caveats, investors may conclude that economic nirvana has arrived and take it as a screaming buy signal. That would be ironic – arguably the best reason for higher rates is the need to take the steam out of the markets.

On inflation grounds alone, there is little case for a policy tightening at present. But the possibility of an early move should not be wholly discounted. Only yesterday one of Mr Greenspan's colleagues was warning of the need to be pre-emptive. Another hinted heavily that the economy is already in inflation overshoot territory. Mr Greenspan's comments do not constitute a licence for complacency.

German banks

Germany's grey-suited banker has become investors' latest pin-up. Since the merger of two Bavarian banks was announced three days ago, German bank shares have jumped by 20 per cent, leaving even a surging stock market trailing.

This enthusiasm is justified – up to a point. The merger proves radical deals are possible in Germany. And the elegant structure, involving the tax-free use of a cross-shareholding, can probably be applied elsewhere in the sector. Short term, however, it is difficult to envisage a merger between any of the three big Frankfurt banks – Deutsche, Dresdner and Commerzbank. Mr Rolf Breuer, Deutsche's chairman, made it clear yesterday that ha would rather buy in France than at home. And consolidation among public sector Landesbanken and Sparkassen – 70 per cent of the market – is likely to be even slower.

Meanwhile, share prices seem to have lost touch with fundamentals. Profitability is improving: Deutscha's half-year net income increased 27 per cent. But a third of its profits now comes from investment banking, buoyed by the bull market. Even so, Deutsche and its peers will struggla to produce a 10 per cent return on equity in 1997, yet they trade at 2.3 times book value. In the UK, the average price to book ratio is 3.3 times, but the banks are more than twice as profitable. And in France, where return on equity is 11 per cent, the price to book ratio is only 1.8 times. German banks look overvalued.

Reuters

Sterling's strength and obstacles to returning large sums of capital to shareholders may be the immediate causes of Reuters' misery. Bnt the longer-term donbts centre on whether the group can recapture its status as a high-growth stock. In particular, can Reuters turn the threat posed by the internet to its advantage?

For the first time yesterday, the company sounded fairly positive on this score. The use of low-cost internet-type technology gives it the capacity to break out of the dealing room. In the financial sector, this means distributing variations of its existing data over corporate intranets to employees who could not previously justify the cost of a dedicated Reuters terminal. It also means selling beyond the financial sector. In an early sign that this is working, Reuters' revenue from professional products grew 26 per cent in the first half – albeit from a low base.

The snag, of course, is that the further Reuters steps beyond its core foreign exchange niche, the less users will be willing to pay and the more competition it will face. This was already visible in its first half results: revenue per user of its information products fell 7 per cent.

Reuters probably has little choice but to sacrifice premium pricing in a drive for volume. And with a good brand, products and technology, it has some of the ingredients needed to succeed. The doubt, as ever, is whether it is pursuing the opportunity with sufficient vigour.

BOC

Anaesthetic gases have been causing sleepless nights round at BOC over the past few years. So the group's decision to sell its healthcare business and focus on the more stable production of industrial gases justifies yesterday's 7 per cent jump in the shares.

On top of that, BOC might get a surprisingly good price. While healthcare profits halved over the past fiva years as the group's first anaesthetic lost its patent, return on capital has now stabilised at a respectabla 16 per cent. And the division is developing new products, including inhaled nitric oxide for treating respiratory failure in infants. That should interest not only Abbott, tha main rival, hut others with anaesthetic products, including Baxter, Astra and Zeneca. In an auction, the division could fetch twice this year's estimated sales, or £900m-£1bn.

That would help BOC fund capital spending of over £500m a year. But it should also consider acquisitions. Although it is world number two in industrial gases with a 16 per cent share, BOC has virtually no presence in continental Europe. Sweden's Aga would be a good fit, but also a big bite given its £2bn capitalisation. Germany's Messer Griesheim might be more manageable. A multiple of 1.5 times last year's DM2.4bn turnover suggests a price of around £1.2bn. And Hoechst, which owns two-thirds, wants to sell out.

But any deal will have to take account of the tax position of the founding Messer family, which holds the remaining third.

Additional Lex note on Nationwide building society, Page 18

Boeing plan for merger approved

Continued from Page 1

Rexrodt, economics minister, called for Airbus to be restructured.

"The first atep must be a reorganisation of Airbus Industrie from a loose consortium to a unified corporation, at best in the form of a public company," he said.

Mr Van Miert, pointing out that increased globalisation would lead to similar competition cases, called for a revival of talks in the World Trade Organisation to improve the co-ordination between the EU and US on competition issues. "We have suggested within the WTO creating a separate structure to deal with competition issues," he said.

Stet avoids Helms-Burton

Continued from Page 1

Jesse Helms, author of the legislation and chairman of the Senate foreign relations committee, said the deal confirmed his suspicions that the US administration was going slow on implementing Title IV.

Although the State Department is responsible for applying Title IV, some members of Congress would like to compel it to enforce the provision more strictly.

So far, only two companies – Sherritt, a Canadian mining company, and Grupo Domos, a Mexican telecoms firm – have had executives barred from the US under Title IV.

Stet is a partner of Grupo Domos in a telecoms project in Cuba.

Asean admits Burma and Laos but not Cambodia

By Ted Bardacke in Kuala Lumpur

Burma and Laos were admitted as members of the Association of South-East Asian Nations yesterday amid continuing controversy over the group's attempts to broker a settlement in strife-torn Cambodia.

As Asean prepared to open its 30th anniversary summit in Kuala Lumpur today, Mr Hun Sen, the Cambodian leader, requested the association play a mediating role in spite of having earlier snubbed a similar offer.

Mr Abdullah Ahmad Badawi, the Malaysian foreign minister, said Asean believed the two-party coalition in Cambodia should be restored. The coalition emerged from 1993 UN-sponsored elections and was toppled earlier this month in a coup led by Mr Hun Sen, the "second" prime minister.

He was supported by Mr Stephen Solarz, the US envoy, who met Mr Badawi earlier in the day and is set to meet Mr Hun Sen and Prince Norodom Ranariddh – who Asean still recognises as Cambodian's "first" prime minister – in the next few days.

Mr Solarz reiterated tha US position that Prince Ranariddh should not be replaced.

Cambodia should have joined Asean with the two other entrants yesterday, but its invitation was frozen after the coup.

Mr Badawi said: "This ceremony would have been – but for an unfortunate turn of events – a ceremony to admit three countries instead of two. It is with disappointment and regret that we view the course of events in Cambodia in the last couple of weeks."

Mr Badawi was speaking after the foreign ministers of Indonesia, Philippines and Thailand met Mr Ung Huot, who is expected to be confirmed as Cambodia's first minister, on the margins of Asean's annual ministerial meeting.

Burma and Laos join Asean's five founders – Indonesia, Malaysia, Philippines, Singapore and Thailand – and two later entrants, Brunei and Vietnam, to create a nine-country grouping considered Asia's most important political and economic organisation.

On the 30th birthday of an association that has always abided by the principle of non-intervention in the internal affairs of memher states, Asean foreign ministers made it clear yesterday that it was not only Camhodia that weighed heavily on their minds.

Potential problems in military-ruled Burma were forcing Asean to examine its entire modus operandi, said Thai foreign minister Mr Prachuah Chaiyasan.

"As Asean becomes more open, as growing interdependence means events in one country can send shock waves throughout the region, we need to rethink some of our most basic assumptions, ranging from the meaning of development and co-operation to the implications of non-intervention," he said.

Other ministers were more moderate in their language. "The principle of non-interference . . . should be acrupnlously adhered to," said Mr Badawi. "However . . . gentle reminders from fellow Asean brothers should be accepted in the spirit of maintaining tha unity and credibility of Asean," he added.

Asean Cambodian role, Page 4
Editorial Comment, Page 11

Drinks giants weigh LVMH link

Continued from Page 1

diversity, "there is no evidence that there is a conglomerate discount", Mr McGrath said. But be said Guinness and GrandMet were going to "look very unemotionally, on a factual basis" at an 18-page proposal from Mr Arnault.

They believe a combination of the three companies' spirits businesses could anhance shareholder value. And they are keen to end the uncertainty created after Mr Arnault called in arbitrators over the future of joint ventures in drinks distribution between Guinness and Moët.

Mr McGrath said investors were already convinced the merger of Guinness and GrandMet would create significant shareholder value – as the rise in shares of each company after the May 12 announcement showed.

Shares in GrandMet closed down 5p at 617p yesterday, while Guinness closed off 6½p at 591½p. LVMH closed up 67 francs at FFr1,626.

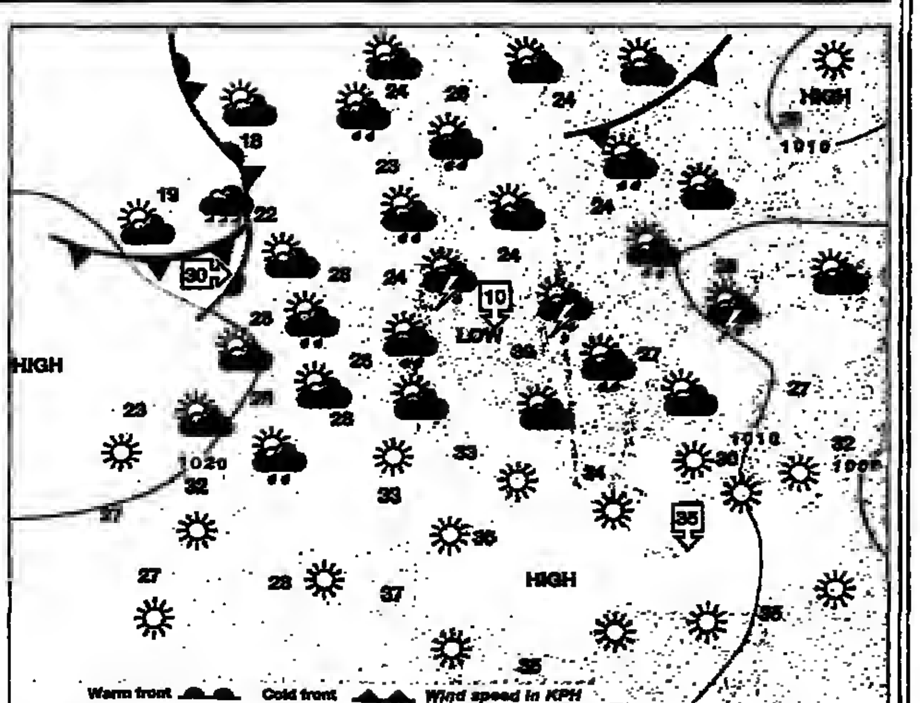
FT WEATHER GUIDE

Europe today

Tha Mediterranean will be fine and hot with nearly unbroken sunshine, although there may be isolated thunderstorms over the hills of northern Greece and more widespread showers in northern Spain. The central strip of Europe, from France to Poland, will be warm and humid with sunny spells and scattered heavy showers or thunderstorms. Much of southern Scandinavia will also be showery but northern Scandinavia and much of Russia should be fine and settled with patchy cloud and sunny periods.

Five-day forecast

Most of the Mediterranean will be hot and sunny but northern Greece and the hills of northern Italy can expect thunderstorms. Central Europe will continue warm but scattered thunderstorms are likely. Scandinavia will start warm with sunny spells and occasional showers but will turn cool and unsettled by Monday.



Situation at midday. Temperatures maximum for day. Forecasts by PA WeatherCentre

TODAY'S TEMPERATURES

	Maximum Celsius										
		Beijing	Fair 36	Caracas	Thunder 32	Faro	Sun 28	Madrid	Fair 29	Rangoon	Rain 27
		Belfast	Fair 20	Cardiff	Rain 18	Frankfurt	Shower 25	Majorca	Fair 31	Reykjavik	Rain 15
Abu Dhabi	Sun 41	Belgrade	Fair 30	Casablanca	Sun 24	Geneva	Thunder 25	Malta	Sun 34	Rio	Fair 24
Accra	Fair 28	Berlin	Shower 23	Chicago	Sun 28	Gibraltar	Sun 27	Manchester	Rain 19	Rome	Sunny 35
Algiers	Sun 30	Bermuda	Fair 30	Cologne	Fair 24	Glasgow	Rain 16	Manila	Fair 35	S. Frsco	Fair 23
Amsterdam	Fair 25	Bogota	Fair 17	Dakar	Fair 30	Hamburg	Thunder 22	Melbourne	Fair 14	Seoul	Thunder 33
Athens	Sun 34	Bombay	Fair 32	Dallas	Fair 38	Helsinki	Fair 24	Mexico City	Fair 28	Singapore	Fair 32
Atlanta	Thunder 31	Brussels	Fair 24	Delhi	Thunder 33	Hong Kong	Thunder 32	Miami	Fair 33	Stockholm	Fair 26
B. Aires	Fair 18	Budapest	Fair 27	Dubai	Sun 41	Honolulu	Fair 32	Milan	Thunder 27	Strasbourg	Fair 26
B.Ham	Rain 20	C.Hagen	Shower 23	Dublin	Fair 20	Istanbul	Fair 28	Montreal	Fair 26	Sydney	Fair 16
Bangkok	Shower 33	Cairo	Sun 32	Dubrovnik	Sun 29	Jakarta	Fair 32	Moscow	Sunny 25	Tangier	Sun 25
Barcelona	Thunder 26	Cape Town	Fair 14	Edinburgh	Rain 19	Jersey	Fair 19	Munich	Thunder 28	Tel Aviv	Sun 31
						Karachi	Fair 33	Nairobi	Fair 25	Tokyo	Fair 31
						Kuwait	Sun 47	Naples	Fair 33	Toronto	Thunder 26
						L. Angeles	Fair 24	Nassau	Fair 33	Vancouver	Fair 21
						Las Palmas	Fair 25	New York	Thunder 21	Venice	Sun 27
						Lima	Fair 28	Nice	Fair 29	Vienna	Cloudy 25
						Lisbon	Sun 28	Nicosia	Sun 32	Warsaw	Shower 24
						London	Shower 23	Oslo	Fair 24	Washington	Thunder 29
						Lux.Bourg	Shower 23	Paris	Sun 27	Wellington	Fair 10
						Lyon	Fair 29	Perth	Fair 18	Winnipeg	Thunder 28
						Madeira	Sun 24	Prague	Fair 24	Zurich	Cloudy 24

FINANCIAL TIMES

COMPANIES & MARKETS

Thursday July 24 1997

Week 30

IN BRIEF

Deutsche Bank looks to France

Dentscha Bank, Germany's biggest, signalled it was looking to expand in France by acquiring a bank or financial services network to sell investment products. Mr Rolf Breuer, chairman, said further growth in France was a priority. Page 18

Hoechst in talks to sell textile fibres
Hoechst, the German chemicals and pharmaceuticals company, has held talks with several companies as part of negotiations to sell its European textile fibres division. Page 15

DuPont reports record quarterly profit
DuPont, the US chemicals group, reported record quarterly earnings of $1.1bn, up 14 per cent from last year. Page 14

French bottling duo agree merger
Sidel, the French manufacturer of machines that make plastic bottles, has announced a merger with Gebo, the specialists in bottling assembly lines. Page 18

Carlsberg-Tetley in push to cut costs
Carlsberg-Tetley, the UK's third-largest brewer, is to announce a cost-cutting drive after its merger with Bass Brewers was blocked by the UK trade secretary. Page 18

S&P puts South Korean banks on notice
Five South Korean banks have been put on Creditwatch with negative implications by Standard & Poor's, the US rating agency. Page 15

Ramco in agreed bid for oil explorer
Ramco Energy, the UK and US listed oil company, has agreed a £54m ($90m) all-share deal to take over JKX, the troubled oil explorer with interests in Ukraine and Georgia. Page 18

Claridge pays instalment on Koors
Claridge-Israel, an investment arm of the Charles Bronfman family of Canada, paid its first instalment to Shamrock Holdings of the US for a 10 per cent stake in Koor Industries, the Israeli industrial conglomerate. Page 15

Companies in this issue

Market Statistics http://www.FT.com

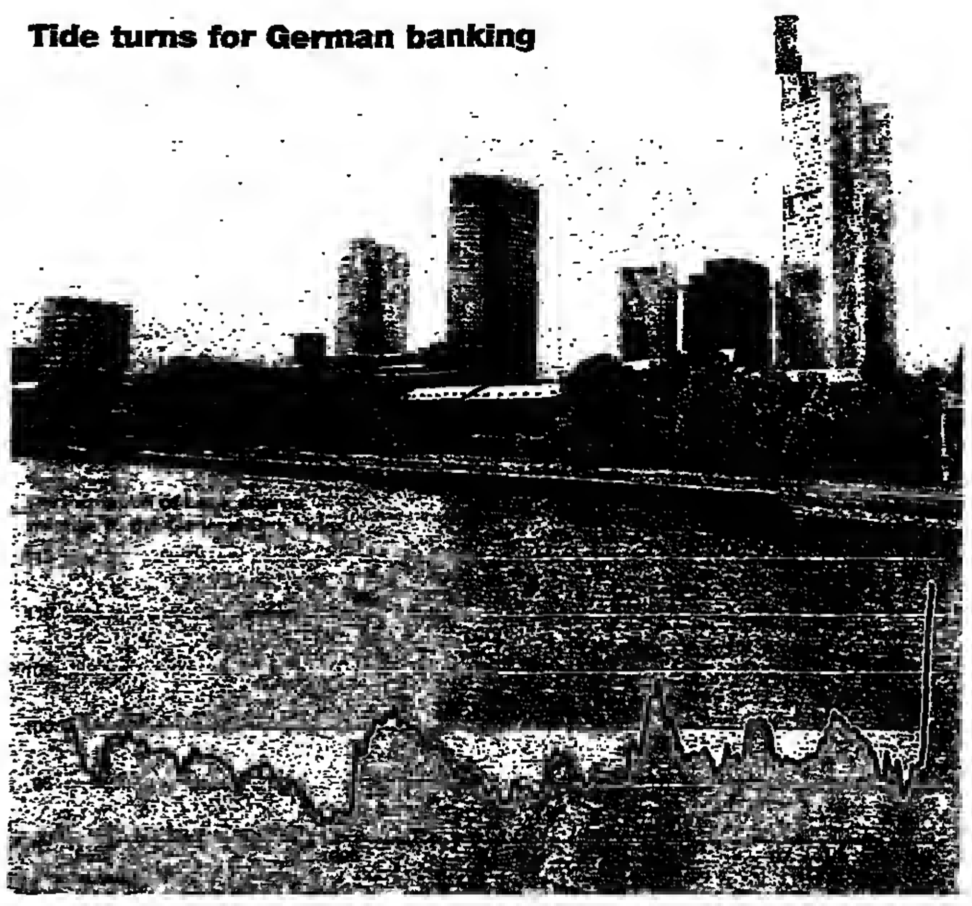
Chief price changes yesterday

FRANKFURT (DM)				**PARIS (FFr)**			
Rises				**Rises**			
Aachen Mch	1979	+	119	Alcatel	779	+	31
Bay Hypo	79.60	+	6.15	CCF	282	+	20.50
Holzmann	478	+	24	LVMH	1626	+	67
MAN	563	+	34	Peugeot	616	+	27
Verein-West	450	+	44	Renault	179	+	14.20
Falls				**Falls**			
VEW	570	–	16	Fromageries Bl	4201	–	49
NEW YORK ($)				**TOKYO (Yen)**			
Rises				**Rises**			
Bay Network	32⅛	+	3⅛	Daiei	882	+	46
Centex Const	29⅜	+	4¼	Fujita Kanko	1380	+	60
Flowserve	38⅛	+	12¼	Jusco	3540	+	100
Jlln Chem	26⅞	+	3⅛	Zexel	650	+	59
NS Group	18⅞	+	3⅞	**Falls**			
Falls				Mizuno Sptg	648	–	21
IMC Global	33⅝	–	2⅛	Nissei Sangyo	1330	–	90
LONDON (Pence)				**HONG KONG (HK$)**			
Rises				**Rises**			
Benson Grp	43	+	5½	Amoy Props	8.15	+	0.10
Colleagues	93½	+	15	Chinese Est H	7.10	+	0.15
Hewlet Wld	115	+	23	Harbour Centre	12.10	+	0.10
Falls				Hopewell	4.87	+	0.10
Concentric	117½	–	8	Vantronix	13	+	0.10
Cradley Grp.	31½	–	7½	**Falls**			
Pace Micro	99½	–	8	HK & China Gas	16.40	–	0.50
TORONTO (C$)				**BANGKOK (Baht)**			
Rises				**Rises**			
Biochem Pha	38.00	+	2.45	North Star	107.00	+	9.00
CDA Bread	25.90	+	1.80	TTL Inds	41.75	+	3.75
Equisure Fin	8.75	+	0.65	Thai Rayon	68.50	+	6.00
Nam Tai El	33.00	+	5.00	**Falls**			
Softkey Sftwre	16.00	+	1.50	Hana Micro El	140.00	–	15.00
Falls				Precious Ship	57.00	–	6.00
AFM Hosptaky	3.00	–	0.60	Srithai Spwalre	63.00	–	7.00

New York & Toronto prices at 12.30.

Vereinsbank-Bayerische Hypotheken deal whets investors' appetite

Banks soar on German merger



By Andrew Fisher in Frankfurt

The German stock market produced more fireworks yesterday with bank shares soaring as a result of speculation in the wake of the Bavarian banking merger.

Strong interim figures from Deutsche Bank, the country's biggest bank, and buoyancy in international stock markets, contributed to the advance.

Bank shares, which have surged higher this week, continued their advance yesterday. Commerzbank shares rose DM2 to DM65, with the smaller BHF-Bank up DM1.79 to DM55.80. Dentscbe gained DM5.50 to DM126.50, with Bayerische Vereinsbank – in which Deutsche owns 5.21 per cent – DM11.50 higher at DM115.50.

Investors' appetite for bank stocks has been whetted by the methods used to combine Vereinsbank and Bayerischa Hypotheken und Wechsel-Bank, whose merger was announced on Monday. This will create a strong Munich-based force in German retail banking and European property financing.

Vereinsbank intends to deploy most of its 10 per cent minority bolding in Allianz, the German insurance group, to acquire up to 45 per cent of Hypo-Bank, offering shareholders Allianz shares in exchange for Hypo-Bank shares.

The deal allowed Vereinsbank to unlock substantial capital gains earned on the stake without incurring the tax liabilities that would have been due had the shares been sold in the market.

The continued rise of bank shares yesterday was based on the possibility that this model could be applied to other banks.

Commerzbank and BHF-Bank are seen as possible takeover candidates, although analysts argue that Commerzbank would be expensive at its current share price. They point to questions about the bank's strategy and credit controls. BHF-Bank, in which Allianz has a stake – as it does in Hypo-Bank, Dresdner Bank and IKB Deutsche Industriebank – has been linked with Swiss and German banks after problems with corporate loans and its industrial interests.

In spite of the market eupboria there are limitations to the way these hidden capital gains can be used to promote consolidation. "This is the first time someone bas tried to swep insurance shares for banking shares," said Mr Rolf Breuer, the Deutsche Bank chairman. "I bope it works."

But this did not mean Deutscbe would be able to exchange its industrial holdings – including a 22 per cent stake in Daimler-Benz – for shares in other banks.

Mr Breuer said the Bavarian tax authorities were more flexible than their counterparts in other German states in their understanding of bow these shareholdings could be used. Vereinsbank's planned exchange of Allianz for Hypo-Bank shares is based on a decades-old legal opinion allowing two companies to swap assets of similar type and size. "If this is accepted elsewhere for tax purposes, then it has a touch of brilliance," be added. "It is a coup that deserves mucb respect and admiration." Mr Matthew Czepliewicz, banking analyst at Salomoo Brothers, said political pressures bad played a role. "You bave to believe that tbe political authorities put pressure on the Munich fiscal authorities," be said.

Deutsche bas said it wants to reduce its industrial stakes, but is inhibited by high German tax rates.

Lex, Page 12
Dentscbe resnlts, Page 15

Spain aims power issue at small investors

By Tom Burns in Madrid

The Spanish government will today announce plans to raise up to Ptas700bn ($4.6bn) with the sale of shares in Endesa, the main Spanisb power gronp, tn small dnmestic investors.

The centre-right government will anthnrise the flotation nn the stock market in October nf more than half of the 66 per cent stake it hnlds in Endesa.

The sale of the 35 per cent stake is expected to raise Ptas1,000bn, nearly double the amonnt tbe government received wben it sold its remaining 21 per cent stake in Telefónica, tbe telecoms group, in February.

The government plans to offer up to 70 per cent of the deal to retail investors, taking advantage of recent popular entbusiasm in Madrid for share offers.

Small investor demand for Telefónica stock was 10 times the number of shares offered and the April privatisation of Repsol, the energy group, was 20 times oversubscribed.

Endesa will rednce the nominal value of its shares from Pta800 to Pta200, a four-to-one stock split, making the issne more attractive to the general public.

The size of the disposal will also allow Sepi, the state bolding company which is selling the Endesa shares, to offer discounts to small investors and forgo tbe higber receipts it would earn by selling to institutions.

In addition, Endesa is studying a range of other incentives for small investors that were part of the Repsol and Telefónica issnes. These inclnde a guarantee against falls in the stock price and bonus shares for those wbo maintain their investment over a 12-month period.

Madrid brokers say the retail investor target is ambitious. However, the snstained bull run on the Madrid Bolsa should ensure demand meets snpply. Endesa's sbare price has risen from a Pta8,510 low in February to a close yesterday of Pta12,480.

The amount of sbares on offer to institutions could be rednced to just 30 per cent. Foreign institutions already own 15 per cent of Endesa and the institutional tranche of tbe offer is expected to be weighted towards non-Spanish funds.

BOC plans to offload healthcare business

By Roger Taylor in London

BOC, the industrial gases group, said yasterday it planned to sell Ohmeda, its healthcare business, one of the world's leading suppliers of anaesthetic gases thought to be worth up to £1bn ($1.67bn).

Mr Danny Rosenkranz, chief executive, said BOC had to choose between making substantial investment in the division or selling it. He had decided to focus on the core industrial gases division and said Ohmeda would fit better with a medical or pharmaceuticals group.

Analyats welcomed the announcement and the shares closed up 71p at £11.43½. Mr Rosenkranz denied the company had any specific plans which required cash – such as acquisitions. The sale proceeds would initially be used to cut BOC's £1.3bn debt, but longer term would be used to fund expansion of the industrial gases business which has been growing rapidly with capital expenditure of about £500m a year.

Tha move reflects a trend among companies which combine pharmaceuticals and chemicals operations to focus on one area. ICI demerged its pharmaceuticals arm Zeneca in 1993, Swiss pharmaceuticals group Sandoz floated its chemicals business Clariant in 1995 and earlier this year French group Rhône-Poulenc decided to concentrate on its pharmaceuticals division Rhone-Poulenc Rorer and sell part of its chemicals business.

Ohmieda has been in decline since its patent on Forane, the most commonly used anaesthetic gas, expired in 1993 exposing the company to competition from US group Abbott Laboratories which drove down prices. Last year, Ohmeda made operating profits of £53.1m on sales of £505.9m compared with £300.5m on sales of £1.97bn seven years ago.

Mr Rosenkranz said the business had now stabilised and profits had levelled in spite of falling sales of Forane. Demand was strong for the company's replacement patented anaesthetic Suprane.

Analysts valued the business at between £800m and £1bn, saying that anything at about £700m would be earnings enhancing for BOC.

Last year, the group made pre-tax profits of £444.9m on sales of £4bn.

Lex, Page 12

Reuters aims at $334m buy-back

Strength of sterling cuts half-year profits to $556m as sales fall 2%

By Christopher Price in London

Plans by Rentars, the UK media and information group, to buy back up to £200m ($334m) of shares were overshadowed yesterday by a dip in half-year profits prompted by the strong pound.

Shares in the group closed down 12p to 597½p after the company reported a 3 per cent fall in pre-tax profits to £333m ($556m) on sales 2 per cent lower at £1.4bn.

The buy-back move was partly prompted by the UK government's decision two weeks ago to abolish tax credits on dividends paid to UK pension funds. Mr Rob Rowley, finance director, said this allowed the company, which has around a third of its investors in the US, to treat its shareholders on a more equal footing.

Ha added that £200m was near to the maximum possible before the company incurred tax penalties.

The company, which was prevented by a change in Treasury rules from returning £613m through the issue of a special dividend share last year, remained keen to return to shareholders a larger proportion of its £1bn cash pile.

Reuters would like the government to adopt the US rules for share buy-backs. Thesa allow companies to acquire their own shares without having to cancel them and reduces tax liabilities.

With some 80 per cent of Reuters' revenues generated outside the UK, the company warned that tbe continuing strength of sterling would adversely affect the current year's results as well.

Revenues from the information products division, which provides hardware and services for the financial markets, fell 3 per cent to £898m. Transaction prodncts, used in foreign exchange and equity dealings, rose slightly to £409m. The media division achieved flat revenues of £104m.

Mr Rowley denied markei speculation that Reuters bas been in talks with other information providers, sucb as Dow Jones or Knigbt Ridder, over possible joint ventures.

Earnings per share slipped 3 per cent to 14.2p. The interim dividend was raised 13 per cent to 3.1p.

Lex, Page 12

Eli Lilly lifted by chance of speedy drug approval

By Tracy Corrigan in New York

Shares in Eli Lilly, the US pbarmaceuticals company, jumped by 2 per cent yesterday despite the announcement of a loss in the second quarter.

Investors welcomed news that reguletors may give a quicker than expected approval for a new drug to treat osteoporosis. In addition, yesterday's results showed that sales of other drugs that were recently launched on the market have grown strongly.

A second-quarter loss of $1.73bn was the result of a decision to write down tbe $2.4bn value of PCS, Eli Lilly's healthcare management business. Earnings were also affected by the sale of Lilly's 40 per cent stake in Dow-Elanco to Dow Chemical.

Excluding these items and costs stemming from a legal settlement, net income amounted to $417.2m producing earnings per share of 76 cents, up 21 per cent from the same period a year ago and in line with analysts' estimates. Worldwide sales in the second quarter totalled $1.98bn, a rise of 17 per cent.

Mr Alex Zisson, pharmaceuticals analyst at Hambrecht & Quist, seid the numbers showed "high-quality earnings, with sales up and research and development expenses up".

Eli Lilly's share price was boosted $2¼ to $116½ by the strong performance of Zyprexa, its anti-psychotic drug launched at the end of 1996. analysts said. Sales of Zyprexa were $156m in the second quarter, nearly 50 per cent higher than in the first quarter. In the US, Zyprexa's share of all new anti-psychotic prescriptions rose from 6.7 per cent to 12.9 per cent.

"What was great about the quarter was tbe strength of new product sales," including Zyprexa, said Mr Ken Kulju, pharmacenticals analyst at UBS Securities.

Sales in Zyprexa, currently marketed in 20 countries with approval for launch in a further 22, could reach $500m this year, believes Mr Kulju, with annual sales eventually reacbing $1bn. Analysts said they were revising upwards sales estimates for Zyprexa following yesterday's numbers.

Another recent introduction, Gemzar, bas also performed well, according to analysts. The anti-cancer drug produced sales of $41m, up 24 per cent from the previous quarter.

Lilly also announced yesterday that the US Food and Drug Administration bas given priority review status to its raloxifene drug, a treatment for osteoporosis that will be marketed under the name Evista.

This means that the final stage of regulatory review prior to approval will be reduced from 12 to 6 months, which means the drug could be launched in early 1998. The drug is also in trials for possible treatment of cancer.

Analysts said the steady performance of Prozac, Lilly's anti-depressive, was reassuring, while tbe write-down of the value of of PCS, which Eli Lilly was widely considered to have bought at an inflated price, was welcomed.

AlliedSignal on target for income growth

By Our New York Staff

Second-quartsr figures from AlliedSignal, the diversified US manufacturer, reflect the extraordinary strength of the US economy, with strong growth in volume and productivity, and no price inflation.

Net income in the three months rose 16 per cent to $305m, or $1.08 a share. Mr Lawrence Bossidy, chairman and chief executive, said the group was on course to achieve its goal of earnings growth of 13-17 per cent this year.

Its long-term target was revenue growth of 12 per cent a year, of which a third would come from acquisitions, he added. Although the group was involved in a number of mature product areas, strong internal growth could be expected from areas such as aerospace, and from niche products in the materials and automotive business.

Prodnctivity in the quarter rose 6.9 per cent, ahead of the long-term target of 6 per cent a year. Mr Bossidy said the next two years would bring further big gains from the so-called "Six Sigma" programme, aimed at eliminating defects in production and services.

Six years ago, when he joined the groop, annual sales were about $13bn from a workforce of 102,000. Sales this year would be around $14bn, and the workforce stood at 77,000.

Although volume was np strongly in areas such as aerospace and automotive turbochargers, the group had experienced a small decline in selling prices across its product range as a whole in the quarter. "I see no inflation," Mr Bossidy said.

Steepest growth in earnings came from the aerospace husiness, where net income rose 28 per cent to $115m thanks to the expansion of commercial aerospace production and improved sales of higher margin spare parts.

The engineered materials eids rose 16 per cent to $137m, but net income on the automotive side was marginally down at $48m, tha effect in part of strikes at General Motors and Chrysler in the US, two key customers for the group's safety restraint systems.

AlliedSignal is also continuing to push into higher margin and growth businesses, with acquisitions completed or annomced in the quarter that will add annualised sales of $550m.

Mr Bossidy said AlliedSignal aimed to achieve half its revenues from the aftermarket, as opposed to original equipment, and half from outside the US. It was well on its way to schisving both these objectives, he said.

The group also announced a two-for-one stock split. Since the last stock split in March 1994, the share price has more than doubled.

Steel group prepares to show its mettle

It is a long time since the steel industry created as much excitement in the stock market as now surrounds the flotation in New York and Amsterdam of Ispat International, the fast-growing, London-based group with a $3bn price ticket.

Mr Lakshmi Mittal, the company's fonnder and chairman, is offering a 16 per cent stake worth about $460m in a share sale set to take place early next month.

Ispat, which has most of its operations in the Americas, is coming to market with an extraordinary growth record that has seen net profits soar from negligible levels at its foundation in 1989 to $630m last year. In 1996, the net return on sales, which totalled $1.8bn, was 34 per cent. The profit figure inclndes gains from revaluing assets, but even withont this contribution, net profits were $262m – or 14.7 per cent of sales.

The figures invite three main questions from potential investors: how has Mr Mittal achieved this growth; can he maintain the momentum; and how can ontside investors be sure of a fair share of the returns, when the founding shareholder will retain 97 per cent of the voting rights?

Mr Mittal, who is 47, was born into an Indian steelmaking family. He struck out on his own in the 1970s in Indonesia, successfully turning an initial $1.5m investment in rolling mills into an international steelmaking empire.

The company's growth has been driven mainly by the acquisition of underperforming steel mills at low prices, often in privatisations. Ispat hes revitalised these operations – in Mexico, Trinidad & Tobago, Canada, Germany and Ireland – by putting in new managers, cutting costs, investing in plant and expanding output.

It has concentrated on prodncing steel in electric arc mini-mills, which can make steel effectively in flexible small units in contrast to traditional blast furnaces.

Most mini-mills operate by converting ecrap steel into marketable products, which is highly profitable when scrap is cheap. But the success of mini-mills has driven up scrap prices over the past 20 years and squeezed margins. So, ateel companies bave developed direct reduced iron (DRI) – a method of processing iron ore into mini-mill feedstock.

Mr Mittal was among the first to grasp the full commercial opportunities of DRI and has made Ispat the world's largest producer of DRI, with an output last year of 5m tonnes.

The jewel in Ispat's crown is Mexico, where the company has increased output per employee fivefold since acquisition. Mexico last year accounted for 37 per cent of group sales and 63 per cent of operating profits. Its operating margin was 18.8 per cent. By comparison, Caribbean Ispat managed an 11 per cent margin and Sidbec-Ispat in Quebec 8.6 per cent, while Ispat Hamburger Stahlwerke in Germany made a small loss.

Ispat is trying to raise standards by further investment and encouraging plants to share information. It is also planning to improve its position in Germany through the DM150m ($63m) acqnleition, announced last month, of two mills from Thyssen Stahl, with a combined turnover of DM1.2bn.

The company is spending $600m on expanding the plants in Mexico and Trinidad, whicb would take the group's annual steel capacity to 8m tonnes.

It also intends to bid for Siderurgica del Orinoco (Sidor), the state-owned Venezuelan steel company, if the government goes ahead with privatisation. With an annual output of 2.9m tonnes, this would bring Ispat's capacity to nearly 11m tonnes and take the group into the world's top 10 producers.

Analysts forecast the group could see sales and net earnings growth of 20 per cent a year over the next few years and become the world's biggest steelmaker by 2010.

However, investors need to consider soms potentisl problems. First, the headline net profit figure includes profits from a revaluation of assets, which is now virtually complete and will not hring big gains in future. As the prospectus says, US rules would not have allowed the gains to be included in net profits. US-style figures are given separetely.

Ispat is also being lumbered with a two-tier share structure, so Mr Mittal can raise capital without relinqulshing almost complete control. The A shares on offer will have only one tenth of the voting rights of B shares which Mr Mittal will retain. Ha will keep 97.5 per cent of the voting rights, or 97.1 per cent if extra shares are put into the sale under a "greenshoe option".

Moreover, Mr Mittal is keeping an important chunk of his business out of the flotation. Neither the Indonesian mills nor the giant Karmet eteelworks in Kazakhstan are included. These are in the prospectus under the heading "potential conflicts of interest."

Finally, there is the all-important question of price. The company says it plans to retain earnings for future growth and pay only "nominal" dividends – so the main return to shareboIders will be through share price growth.

At the indicated price of $22-$26 a ehare, the historic price/earnings multiple is about 21, based on earnings of $1.12 a share for the year to March 1997, excluding the revaluation gains. For the year to December 1998, analysts expect strong growth to take earnings to perhaps $1.80 a ehare, giving a prospective multiple of about 13.5.

This is a modest discount to Nucor, the fast-growing US mini-mill group to which Ispat is often compared, and which trades on a prospective multiple of about 14.5. It is a higb price for Ispat, given that its main operations are located in s risk-prone developing country. The entrepreneurial Mr Mittal must work hard to justify the premium rating.

Stefan Wagstyl

Oil companies produce mixed results

By Christopher Parkes in Los Angeles

The flow of mixed second-quarter results from US oil majors continued yesterday as lower crude oil prices helped sharpen the performance of downstream operations and ate into earnings from exploration and production.

Mobil, reporting earnings per share up from 98 cents to $1.06, credited strong operating results at its US refineries and efforts to step up volume sales in all divisions.

Net income, excluding a $30m charge for Its refinery and marketing alliance with British Petroleum, rose 8.5 per cent from $783m to $850m. Income from chemicals rose $26m to $91m.

Chevron's earnings per share slipped from $1.34 to $1.26, reflecting a charge for a stock option scheme. Discounting one-off charges, net income rose 20 per cent from $700m to $837m.

Upstream divisions override the effects of reduced cruds rates due to higher production and reduced taxes on some overseas operations. Chemicals profits improved as a result of lower feedstock prices and volume sales increases.

Unocal, which recently sold its Californian oil refining and gas assets, reported earnings per share down at 48 cents from 92 cents, and said its results had been affected mainly by lower prices for crude and natural gas and increased international exploration costs.

Shell Oil, the US subsidiary of Royal Dutch Petroleum, said losses on chemicals in the second quarter of last year had been turned into profite of $155m this time.

Net income was up 15 per cent at $531m, due in part to a tax adjustmant gain of $55m. Exploration and production income was down $45m from a year ago at $262m.

DuPont advances 14% in quarter

By Tracy Corrigan in New York

DuPont, the US cbemicals company which bought a large part of ICI's industrial chemicals business earlier thie month, yesterday reported record quarterly earnings of $1.1bn, up 14 per cent from last year.

The group said the increaee was driven by 10 per cent volume growth in chemicals and speciality husinesses and continued strength in its oil division.

"We continue to make progress in growing businesses where we have both a low-cost and technological advantage," said Mr John Krol, president and chief executive.

Earnings per share of $1.01, np from 89 cents a year ago, were in line with analysts' expectations.

Sales for tha quarter totalled $11.4bn, up 2 per cent on the previous year. Chemicals and speciality chemical sales rose 6 per cent, to $6.5bn, on a volume increase of 10 per cent that was offset by a 4 per cent fall in average salling prices.

Earnings from Conoco, DuPont's oil business, were np 13 per cent at $246m, despite a 2 per cent decline in sales to $4.9bn.

However, the effects of lower crude oil prices and bigher exploration costs were limited by a 105 per cent climb in downstream earnings to $88m, as a result of higher product margins, the company said.

DuPont shares rose $1⅞ to $87¼ in early trading, although analysts said the results contained few positive or negative surprises. "We are in a market where no bad news is good news," said Mr Paul Leming, chemicals analyst at DMG.

Mr Leming said the recent purchase of ICI's titanium dioxide, or white pigments, business was s good fit with DuPont's operationa, although the logic of its purchase of the UK company's polyester arm was as yet unproven.

Liberalisation hits profits at Telmex

By Daniel Dombey in Mexico City

The rigours of life in a liberalised market pushed down second-quarter sales and profits at Teléfonos de México (Telmex), the country's former telecommunications monopoly.

But although long distance revenues were sharply down, local revannes increased significantly.

Midway through New York trading yesterday, the company's American Depositary Receipts had edged up 1 per cent to $50⅞.

"The most important factor in Telmex's first half performance has been the opening of the Mexican market to competition," said Mr Adolfo Cerezo, chief financial officer.

The company has retained a 75 per cent share of subecrihers in the 60 cities where long distance competition has been introduced, and Mr Cerezo said that the company's revenue per line was broadly the same as that of its competitors.

Telmex's second-quarter net profit was 2.6bn pesos ($330.78m), a drop of 34.8 per cent on the same period in 1996. The company blamed the fall on the effect of interest and exchange rates on the value of its holdings, as well as the impact of its operating results.

Operating profits dropped 7.5 per cent to 4.6bn pesos as costs increased and prices fell as part of the company's fight against competition.

Total sales for the quarter were 13.6bn pesos, 0.7 per cent below the same period a year before. But the incremental change masked significant shifts in the composition of Telmex's revenues.

International long-distance revenoes fell 36 per cent to 2.5bn pesos, while national long-distance sales declined 11.1 per cent to 3.8bn pesos. Despite lower prices, the total number of minutes billed for international long-distance calls rose by only 1.4 per cent compared with the second quarter of 1996.

Meanwhile, local service revenues jumped to 6.6bn pesos, up 30 per cent on tha second quarter 1996, largely hecause of a continuing drive to increase local rates. Up to now, the wafer-thin margins of the local business have rendered it a virtual monopoly.

However, Telmex received less revenue than expected from connecting other operators to its network. Interconnection fees totalled only 125m pesos, which may indicate that the group's rivals are bypassing Telmex and installing private lines for their clients.

Mr Cerezo added Telmex planned capital expenditure of between $1.1bn and $1.3bn this year, largely on improving local infrastructure, and that it would continue with its share buy-back programme. Telmex also announced yesterday that it was planning to issue 9bn pesos of commercial paper.

AMERICAS NEWS DIGEST

United Tech powers ahead

Growing demand for commercial aircraft engines helped power United Technologies' profits to a better-than-expected $1.17 a share in the second quarter, up from 98 cents last time and 3 cents better than Wall Street predictions. As in the first quarter of this year, foreign currency fluctuations had a negative impact, lopping $149m off revenues and an estimated 4 cents from earnings per share.

Operating profits at its Pratt & Whitney engines division rose 31 per cent in the quarter to $210m from $160m as revenues surged 27 per cent to $1.94bn compared with $1.53bn in the same part of last year.

Flight systems operating income rose 11 per cent and the Otis elevator division reported a 3 per cent improvement. Group revenues were 7 per cent higher at $6.5bn.

Christopher Parkes, Los Angeles

■ COMPUTER NETWORKS

IBM and 3Com expand alliance

IBM and 3Com, the networking equipment group, have strengthened and expanded their networking alliance to cover office workgroup and building-to-building "backbone" data networks. The companies said they had agreed to further technology exchanges and a re-marketing agreement as part of their extended alliance.

They said their agreement, which highlights the integration of the data processing and networking sectors, would make it easier for customers to install and use quickly software applications that require high-capacity data networking links. These include video-conferencing, on-line financial trading, distance learning, medical imaging and electronic banking and shopping.

As part of the agreement, IBM said it planned to offer its own versions of 3Com's Superstack family of switches aimed at corporate departments, and to provide high-speed ATM (asynchronous transfer mode) connections to some of its future prodncts.

Observer, Page 11 *Paul Taylor*

■ US AIRLINES

TWA and US Airways slip

Trans World Airlines and US Airways both reported a fall in profits for the second quarter yesterday.

Shares in US Airways slipped $1⅛ to $37⅞ in early trading after it announced earnings per share of $2.46 for the quarter, down from $2.71 in the second quarter of 1996. Net profits were $206.5m for the quarter a 2.4 per cent increase over the second quarter of 1996.

TWA shares suffered less, slipping $1/16 to $6 7/16 on the back of a net loss of $14.4m, and operating profits of $5.9m, for the second quarter, both down significantly on the same period in 1996 when operating profits were $62m and net profits $25.3m.

Mr Gerald Gitner, TWA chairman, blamed the "disappointing" results on revenue per traveller mile covered, which slipped from 11.93 cents to 11.60 cents. He said: "The reason for this yield problem is clear. TWA has not yet reclaimed its share of the premium fare business travel market."

John Authers, New York

■ TRANSPORT

Canadian Pacific advances

Buoyant rail and shipping business helped propel Canadian Pacific to a 34 per cent advance in second-quarter earnings. The transport and resources group's net income climbed to C$241m (US$174m), or 70 cents a share, in the three months to June 30, from C$179.6m, or 53 cents, a year earlier. Revenues rose to C$2.34bn from C$2.05bn.

CP Rail, one of Canada's two national railways, contributed C$78.8m, up from C$44.2m. The increase was spurred by higher grain, potash and intermodal traffic.

CP Ships posted record earnings, with operating income up 59 per cent. Pressure on rates was offset by higher container volumes. CP Ships is in the throes of acquiring Lykes Lines, a well-known US carrier.

Bernard Simon, Toronto

■ ENTERTAINMENT

Time Warner settles with News

Time Warner will put News Corp's Fox News channel on Time's New York cable-TV system in a deal to settle a dispute between them, the two companies said. All outstanding litigation between Time and News Corp will be discontinued, as will all litigation between Time Warner and New York City.

The terms of the settlement were not disclosed, but it ends a dispute that started after News Corp was unable to get space for Fox News on the Time Warner system in New York.

A bitter squabble broke out between executives from the two companies, and News Corp filed a lawsuit.

The battle eventually involved New York mayor Mr Rudolph Giuliani, who had offered one of the city channels, but Time Warner legally hlocked that move.

Reuters, New York

■ MEXICAN MEDIA

Televisa chief quits

Mr Guillermo Cañedo White has resigned as chief corporate officer of Televisa, the giant Mexican media group, in the wake of a prolonged battle within the company. The company was unable to confirm reports that Mr Cañedo and his brother José Antonio had sold their joint 10 per cent stake to Mr Emilio Azcárraga Jean, Televisa chief executive, for $200m. The company's market capitalisation is $4.5bn.

Mr Cañedo had been widely respected as the public face of the company during difficult times, but his resignation had been expected for some time. After the death earlier this year of Mr Emilio Azcárraga Milmo, the current chief executive's predecessor and father, it was Mr Cañedo who soothed investors with a cost-cutting plan that aimed to save $270m over three years.

But he fell victim to a move against him by Mr Alejandro Burillo, a cousin of the Azcárragas and a large shareholder. The company now lacks a chief financial officer, another of Mr Cañedo's former jobs.

Daniel Dombey, Mexico City

■ CANADIAN ENERGY

Imperial Oil ahead 59%

Imperial Oil, Canada's largest integrated oil company, posted a C$183m (US$132m) profit in the second quarter, s 59 per cent increase over the same period last year. The company's output of crude oil and liquids increased to 282,000 b/d from 247,000 b/d in the second quarter last year. Revenue was up slightly to C$2.61bn from C$2.60bn. Imperial, in which Exxon, of the US, holds a 69.9 per cent stake, said its earnings were bolstered by increased heavy oil prodnction at its recently expanded plant in northern Alberta, and improved performance at its chain of Esso gasoline stations. Natural gas sales during the quarter rose more than 22 per cent over last year.

Imperial's first half profit was C$374m on revenues of C$5.29bn, compared with earnings of C$489m on revenues of C$4.99bn last year, results which reflected a C$250m gain from tax refunds.

Scott Morrison, Vancouver

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COMPANIES AND FINANCE: ASIA-PACIFIC

H-shares take turn in the limelight

HK-traded stock of state-owned China enterprises has recently found renewed investor interest

Red chips, the Hong Kong-listed mainland-backed companies which inspired a buying frenzy in the territory's last months of colonial rule, have been toppled from their perch by their ugly sister – H-shares.

H-shares, the name given to the Hong Kong-traded stock of former mainland atate-owned enterprises, marked China's first big experiment with overseas capital markets but have in recent years fallen ont of favour with investors.

In their early days they enjoyed buge success: the pioneering Hong Kong issue in July 1993 of Tsingtao Brewery was 111 times subscribed and the share price rocketed in the first few months.

But H-share euphoria soon evaporated, especially once results started coming in. Profit growth seldom met expectations and losses were increasingly recorded.

"The first listing came at the peak of China's economic cycle," says Ms Pitzi Lau, analyst at Salomon Brothers in Hong Kong. "Then cama the credit squeeze [in China] for three years or more. And in an economic slowdown, how can yon have basic industries outperforming?"

Now, however, it is again the turn of the H-shares to shine – albeit, some analysts believe, only briefly and with scant justification. Tsingtao's shares roused from a long slumber to double in price last week, while Shanghai Haixin Shipping saw its shares jump fivefold.

The sector was sparked into life by a restructuring at the parent of Shanghai Haixin – a shipping company listed in 1994 and loss-making from the following year.

Next came Tsingtao. Earlier this month it announced the formation of a holding company, both to receive unprofitable "businesses" – including the kindergartens and hospitals which subsequent H-shares hived off prior to listing – and to develop acquisitions.

Talk of further restructurings has caught investors' imagination and resulted in a swing from red chips to H-shares. In the first half of this month the index tracking H-shares rose 15 per cent, while daily turnover more than doubled to US$350m.

Restructuring brings some of the red chip gloss to H-shares, raising the possibility of future asset injections – at attractive rates – from the new parent, and also of greater diversification. While many red chips are mini-conglomeratea with interests epanning property, retail and infrastructure, H-shares are single industry enterprises – and usually highly cyclical.

Mr Lawrence Ang, head of China research at Deutsche Morgan Grenfell, adds that a holding company capable of draining off unprofitable operations – and hence improving an H-share'e earnings – would also improve the listed vehicle's ability to raise capital.

Red chips have tapped the markets vigorously, using share placements to fund acquisitions. H-shares, by contrast, have seldom returned after their initial public offerings.

In addition to their dull earnings outlooks, H-shares have been hampered by rules imposed from Beijing which make share offerings a cumbersome undertaking. Both regulatory and shareholder approval is required, and the process can last more than six months.

But Mr Ang sees this changing, as part of a drive by the Chinese government to galvanise its listed corporate sector. "This sort of reform is going to be a key focus of China's upcoming party congress," he says. "They've done very well on the macro adjustment; now the major task is on the micro, or corporate, side."

However, for many analysts the closest similarity between the re-rating taking place among H-shares and the red chips in whose path they follow is unjustifiably high price tags.

"It is purely driven by epeculation – what fundamentals can change in the space of a week?" says Ms Lau, pointing to Tsingtao's price/earnings multiple of 70 times 1997 earnings. Hong Kong's henchmark Hang Seng Index is trading on a comparable multiple of around 15 times.

Mr John Pinkel, head of China research at Merrill Lynch, says the red chip formula cannot simply be grafted on to H-shares – because, for example, of differences in the status of the parent companies. Red chips are generally backed by aseet-rich provinces and cities, rather than the stand-alone enterprises tbat spawned many H-shares.

Moreover, H-share companies may find it harder to find the high-quality assets which helped make the red chips.

Citic Pacific, Beijing's main investment vehicle and arguably the first red chip, won investors' dollars on a diet of stakes in significant Hong Kong companies such as the airline Cathay Pacific, the territory's de facto flag carrier.

But Mr Ang, pointing to the efficiencies and earnings growth he believes will arise "almost immediately" after the parental restructurings, says any re-rating of H-sbares is justified.

He also believes the Chinese government has the will to push the sector forward, creating the strong possibility that change will happen.

"This is not just a story made up by speculators," he saye. "China realises its listed vehicles are transparent and have to perform well if they are to raise money... especially after the red chip euphoria, they see the opportunities."

Louise Lucas

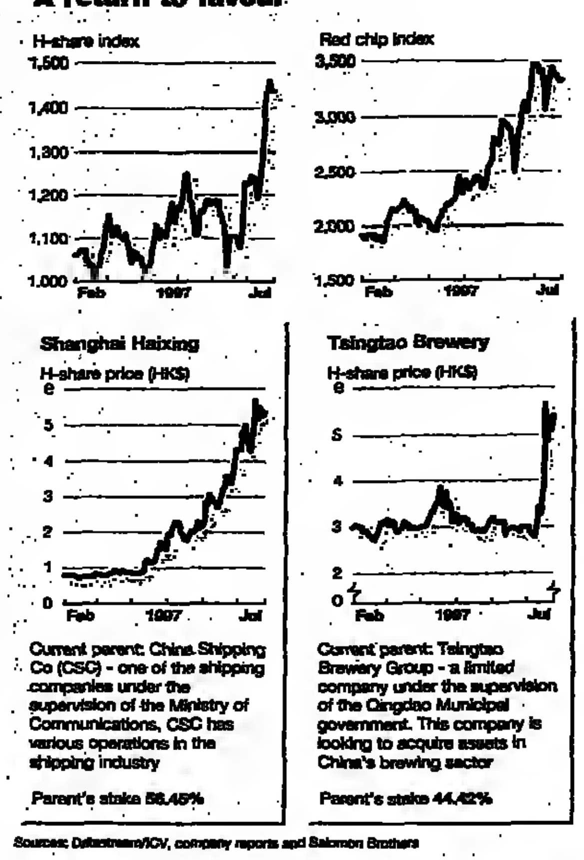
China Everbright, the acquisitive business arm of China's State Council, bas taken a 7.5 per cent stake in Angang New Steel, which today becomes Hong Kong's 33rd listed China state-owned enterprise, or H-share, writes Louise Lucas in Hong Kong.

China Everbright Holdings, which has three Hong Kong-listed arms, did not disclose the price it had paid for the stake. However, based on the issue price of HK$1.63, the purchase would have cost HK$270.58m (US$35m). The company said it bought 166m shares, representing about 18.7 per cent of the total H-shares to be listed.

While the sale of advance stakes to well-known companies has boded well for previous H-share listings, analysts are more cautious in the case of Angang Steel, which is the first such offering since 1995 that has not been fully taken up. Pricing was scaled back, and with it Angang's ambitions to raise up to HK$1.75bn, but the 89m shares offered were still only 99.7 per cent subscribed.

Shares were priced at the lower end of the HK$1.61 to HK$1.97 range, and Angang raised just HK$1.45bn from its sale of 890m shares. Despite being the first H-share listing since Hong Kong reverted to China, analysts expect it to make a weak debut on the stock exchange today.

A return to favour



Sources: Datastream/ICV, company reports and Salomon Brothers

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S&P warns on Korean banks

By John Burton in Seoul

Five South Korean commercial banks were yesterday put on Creditwatch with negative implications by Standard & Poor's, the US rating agency, in response to the near-bankruptcy of the Kia group, Korea's third-biggest carmaker.

The banks – Korea First, Korea Exchange, Hanil, Shinhan and Korea Long-Term Credit – have a total exposure to Kia of $1.9bn, according to S&P.

"The action reflects the deteriorating asset quality and heightening industrial risks faced by Korean banks as defaults continue to emerge among Korea's highly leveraged industrial conglomerates," it said.

Several Korean banks had their credit ratings downgraded by other agencies earlier this year, following the collapse of the Hanbo and Sammi steel groups. The leading banks have since agreed to rescue other troubled conglomerates, including Kia and the Jinro liquor and Dainong retail groups.

S&P was "concerned about the spillover of defaults to other sectors of the economy and, ultimately, to the banking sector".

It said it expected the five banks would have to provide added financial support, while losing interest income, as Kia tries to restructure.

Even if Kia and other groups are saved because of anti-bankruptcy pacts with the banks, their financial performance will stay weak. "This could result in higher non-performing loans and further weakening of credit quality among many Korean banks," S&P said.

Falling peso hits San Miguel

San Miguel, the Philippine food and beverage group, is one of the most prominent blue-chip losers from the recent depreciation of the peso, adding to investors' negative sentiment on the group.

"The 14 per cent price cut on its top-selling beer announced late last month, together with the de facto devaluation of the peso two weeks ago, has hit the group's share price – San Miguel B shares are 22 per cent down from a month ago.

The group argues that the limited depreciation of the peso – it closed at 28.5 to the dollar yesterday, down 7 per cent from its level before the central bank surrendered to speculators – will contain ths impact on profits.

At PLDT, the former telecoms monopoly, by contrast, a one peso depreciation translates to an additional net income of 500m pesos ($17.54m).

"For every one peso forex decline, there's a little over 100m pesos erosion at the bottom line," says Mr Albert de Larrazabal, senior vice-president of treasury at San Miguel. "That reflects higher raw materials cost on the imports side and to some extent also our international operations. As they are at the loss-making stage, those losses will be correspondingly higher."

> 'For every one peso decline, there's a little over 100m pesos erosion at the bottom line'

Faced with flagging domestic beer sales, the group has thrown itself into an international expansion programme. Setting up in China was proceeding according to plan, said Mr de Larrazabal, but problems had been experienced in Indonesia, related to political unrest earlier in the year.

Imports – of malt, paper, aluminium and soyabean meal for the food business – are crucial to the group's beer division, wbich accounts for about 50 per cent of group sales.

Mr de Larrazabal says that of the group's foreign debt of about $250m, 90 per cent is long term and has not been affected by punitively high interest rates, which were brought on by the central bank raising its key overnight borrowing rate to as high as 32 per cent in order to defend the peso against speculators. Some gains will he made on the group's exports of coconut oil and enhanced margins overseas, be adds.

"Of the blue chips, San Miguel is definitely one of tbe worst affected by the slide in the peso," says one analyst. "But we don't yet know how much can be passed on to customers on the food side. Clearly, on the beer side, the lion's share of the gronp's business, they have no choice because they have only just cut prices and so margins will be squeezed."

Paribas Asia Equity is downgrading its 1998 earnings forecast by 8 per cent to take into account the price cut and a weaker peso.

One indication of fraying tempers caused by a tough domestic beer market came over the weekend, with the raid by Asia Brewery and police of a San Miguel beer plant to recover crates and bottles. It claimed they were being held by San Miguel to stifle competition.

Asia Brewery launched a $4m suit against the group. Not to be outdone, San Miguel said that it would file a countersuit.

Justin Marozzi

ASIA-PACIFIC NEWS DIGEST

Warner-Lambert in S Korean deal

LG Chemical, of South Korea, yesterday signed a deal with Warner-Lambert, the US pharmaceutical company, to develop and commercialise an oral thrombin inhibitor. The US company will pay an initial $40m to LG for the right to market the drug, called LB30057. LG expects total royalties from Warner-Lambert to exceed $1bn by 2015.

LG Chemical will have the exclusive marketing rights in selected Asian countries for the drug, which it has developed since 1993 at a cost of Won5bn ($5.5m). The drug, which is in the final stages of clinical testing, will be used to treat deep vein thrombosis and pulmonary embolism.

It is the second big partnership for LG with a foreign pbarmaceutical company this year. In May, it agreed to provide SmithKline Beecham, of the UK, with a new antibiotic for respiratory and urinary infections at an initial price of $38m, with royalties expected to reach $670m over the next 20 years. *John Burton, Seoul*

■ PHOTOCOPIERS

Konica signs up Eastman Kodak

Konica, the Japanese photographic and business equipment maker, has signed an agreement with Eastman Kodak under whicb it will supply the US group with own-brand plain paper photocopiers. The deal could be worth more than Y10bn ($8.6m) in the first year, if sales of related supplies are taken into account.

Over the next year, Konica will supply Kodak with about 10,000 units of the Konica7050, a digital copier with a capacity of 50 sheets a minute, on an original equipment manufacturer basis. They will be distributed under the Kodak brand name through Danka Business Systems, which has worldwide distribution rights for Kodak photocopiers. Konica has been selling the same machine under its own name since 1995, and will continue to do so. *Bethan Hutton, Tokyo*

■ MITSUBISHI MOTORS

Injection for US units

Mitsubishi Motors, the Japanese carmaker, has injected an extra $350m into its two main US units and eliminated their accumulated losses that had totalled $1.7bn. The company said the latest measure marked its final step in restructuring the struggling US operation, whicb has been burt by slnggish sales and a sexual barassment case involving a number of employees at its plant.

The injection will enable the two companies to turn profits in the second half of this year, although the US business will still remain in the red for the entire year. The latest step does not affect Mitsubishi's group earnings outlook for the current year, because it had already been taken into account. It follows similar steps in the previous two years. *AP-DJ, Tokyo*

■ INDIAN TELECOMS

VSNL plans offering

Videsh Sanchar Nigam (VSNL), the Indian international telecoms monopoly, will make a domestic public offering of 690,000 shares in September to follow its issue of Global Depositary Receipts in March, which raised $527m.

The issue, which is VSNL's first public offer to Indian investors, will be priced at a 10 per cent discount to the GDRs. It is expected to raise Rs621m ($17.39m) for the government. *AP-DJ, Bombay*

■ HONG KONG

Cathay Pacific to shed jobs

Cathay Pacific, Hong Kong'e de facto flag carrier, is cutting 350 jobs as a result of its move to the new airport at Chek Lap Kok, which is due to come into operation next April. The existing smaller facility at Kai Tak will then close.

The company said the job losses, which represent about 3 per cent of its Hong Kong workforce, resulted from a change in the operating functions at the new airport. Duties previously managed by Cathay Pacific, including ramp handling and vehicle maintenance, will now be contracted out.

Cathay said it had appointed a placement agency to help find new jobs for the displaced staff, and was also talking to the airport franchise holders to see if they could hire the workers. *Louise Lucas, Hong Kong*

Deutsche Bank signals French purchase

By Andrew Fisher in Frankfurt

Deutsche Bank, Germany's biggest, yesterday signalled it was looking to expand in France by acquiring a bank or financial services network to sell retail investment products.

Mr Rolf Breuer, chairman, said France was the biggest potential member of the single European currency after Germany, and further growth there had a high priority. "This is one of the biggest things we are looking at," he said.

The group needed increased distribution for its asset management business in France, he added.

His comments fuelled speculation about financial services restructuring after Monday's announcement of the merger between Bayerische Versinsbank and Bayerische Hypotheken-und Wechsel-Bank.

However, Mr Breuer gave no details and said the attitude of the new leftwing government in France to greater foreign bank sctivity and privatisations would determine strategy.

He also announced s 27.5 per cent rise in net income to DM1.49bn ($822m), with earnings per share np from DM2.30 to DM2.90. This was slightly above analysts' expectations.

"We are confident that, if the markets remain favourable, we shall be able to achieve a higher profit for the whole of 1997 than last year," he said.

Investment banking made a strong contribution. The group's Dentsche Morgan Grenfell unit earned as much profit in the first half as in all of 1996. It contributed DM835m to group operating profits of DM2.86bn, which were 11.4 per cent up on the first half of last year.

Financial trading profits, strongly inflnenced by investment banking, rose 48 per cent to DM2.04bn, though Mr Breuer said this pace would not necessarily be repeated in the second half.

Net interest income rose 7 per cent to DM5.7bn, with net commission income jumping 26 per cent to DM4.15bn. The bank cut its risk provisions 35 per cent to DM529m, saying the quality of the loan portfolio had improved.

Pre-tax profits increased 24 per cent to DM2.8bn.

Costs rose 27 per ceot to DM8.9bn, reflecting continued foreign expansion in investment banking. Mr Breuer said cost management would slow the growth in expenses in the second half.

Mr Jürgen Krumnow, a director, said tbe bank would adopt a tough policy towards costs, especially outside Germany. It planned to save DM1bn on budgeted annual costs by tbe end of this year.

For example, the bank plans to concentrate trading activities, currently carried out in 35 centres, into five centres: Frankfurt, London, New York, Tokyo and Singapore.

Lex, Page 12

Rolf Breuer: further growth in France is 'one of the biggest things we are looking at' Reuters

'It's a wonderful day for European banks'

By David Owen in Paris

Yesterday's comments by Deutsche Bank helped produce a stampede for French bank shares in heavy trading on the buoyant Paris stock market.

Shares of two banks – Banque Nstionale de Paris and Crédit Commercial de France – were briefly suspended for a cooling-off period in brisk morning trading.

By the end of the day, leading bank shares had registered gains of between 5 per cent and 10 per cent, compared with just under 3 per cent for the benchmark CAC-40 index.

BNP and CCF were at the top of the pile, rising 10.1 per cent and 7.8 per cent, respectively.

Paribas was not far behind, climbing FFr28.30, or 7 per cent, to FFr430.70; Société Générale rose FFr45, or 6.1 per cent, to FFr783 and Crédit National was np FFr18.60, or 5.2 per cent, to FFr376.50.

Analysts attributed the surge to expectations of European bank restructuring.

Although these were reinforced by the Deutsche Bank comments, they had already been ratcheted np by this week's big German bank merger.

"It has been a wonderful day for European banks," said Mr John Leonard, European banking analyst with Salomon Brothers in London.

Some also suggested that French bank stocks had underperformed many of their European counterparts for a considerable period and that their time was ripe to make up some of this leeway.

Yesterday's developments cams less than a week after France's new Socialist-led government cleared the way for the break-up and sale of GAN, ths state-controlled insurance group.

GAN controls CIC, the regional banking network.

Severe opposition forced France's previous centre-rigbt administration last year to scrap plans to sell s majority stake in CIC in a rival French bank.

Hoechst in spin-off talks

By Graham Bowley in Frankfurt

Hoechst, the German chemicals and pharmaceuticals company, has been in talks with several companies as part of negotiations to spin off its European textile fibres division.

It said yesterday it was also considering floating Messer, its industrial gases and welding unit. But it said any move would not happen before next year.

Messer, which is two-thirds owned by Hoechst, would have to be transformed from a limited liability concern into a company with s full sbareholding structure before it was listed, Hoechst said.

The decision to spin off the European textiles fibres division, part of Hoechst's Trevira group, comes amid a slump in the European textiles industry. The division has struggled as the focus of the textiles industry bas shifted from Europe towards Asia, where tocal producers have preferred to use local suppliers.

Hoechst said it was considering a number of solutions for its textiles fibres unit, which could include a joint venture.

It confirmed that it had been in talks with Polysindo, an Indonesian company, among others.

Mr Jürgen Dormann, chsirman, said at the group's annual shareholders meeting earlier this year that he was considering "furtber development options", including partnerships, for Trevira.

Hoechst has rsdically restructured, transforming itself into a bolding company in which its individual divisions bave become legally independeot companies which operate under the strategic management of Hoechst.

● SGL Carbon, one of Germany's most successful companies over the past two years, bas stepped up its pusb into world markets with the purchase of three US and UK carbon fibre-related companies.

SGL Carbon, wbose shares, until recently, have been a top performer since its demerger from Hoechst, said its US division bad bought Hitco Technologies, a specialist in carbon fibre components in the US.

It has also scquired PG Lawton, the UK carbon fibre processor, through its Scottish subsidiary and a 60 per cent stake in David Hart, a speciality graphite machine sbop in Alcester, UK. The company gave no details of prices.

EdP in phone bid group

By Peter Wise in Lisbon

Mr Belmiro de Azevedo, Portugal's leading entrepreneur, and tbe state-cootrolled Electricidade de Portugal, have joined forces to bid for the country's third mobile telepbone licence.

In an unprecedented alliance between the pnblic and private sectors, Imparsa, spun off from Mr de Azevedo's Sonae conglomerate in January, will hold a majority stake in the consortium.

A strategic foreign partner is being sought and analysts said Cable and Wireless, the UK-based telecommunications group, is a frontrunner.

The consortium already includes two otber public-sector companies – Transgás, tbe natural gas operator, and Gas de Portugal, a gas distributor – as well as Maxitel, a telecoms company.

"It is difficult to imagine a consortium more likely to win the licence or a group that poses a more powerful threat to customer franchise of the two existing mobile pbone operators," said a Lisbon analyst.

The government is due to award the third licence by the end of the year.

Sonae, Portugal's biggest private-sector gronp with sales of Es451bn ($2.46bn) in 1996, lost a 1991 bid for the second mobile phone licence.

Analysts said one of the biggest threats to the existing operators was the marketing potential of Sonae's snpermarket chains and EdP's huge customer base.

Mr de Azevedo owns 52.1 per cent of Imparsa, demerged to handle the industrial holdings of his distribution-led Sonae group, and other diverse interests.

Portugal's second mobile pbone licence went to Telecel, now controlled by Air-Touch of the US. The first-establisbed operator was Telecomunicaçôes Móveis Nacionais, of the state-controlled Portugal Telecom group.

Telecel yesterday reported a 137 per cent increase in first-half net profit from Es2,68bn last year to Es5.85bn. It added 124,197 subscribers, reaching a total of 455,585, up 99 per cent from the end of June 1996.

The government has reserved 40 communications channels for the new operator, ensuring it will be able to compete on equal terms with existing licence holders using the digital Global System for Mobile communications standard.

The Imparsa-led consortium is believed to be committed to s start-up investment of sbout Es40bn.

EUROPEAN NEWS DIGEST

Eureko joins GAN suitors

Eureko, the north European insurance and financial services group, yesterday added its name to the list of potential bidders for GAN, the French state-controlled insurance company which the government confirmed last week it would privatise.

"We are confident that an integration with Eureko represents the best option," said Mr Jeff Medlock, chief executive of Eureko. "We will ensure that GAN retains its essential French identity while benefiting from [Eureko's] European network."

Eureko, Europe's seventh-largest insurance group with 33,000 employees and more than Fl 200bn ($33bn) in assets, said the acquisition of GAN would put it in third place. The group, which owns stakes in insurance companies in six countries – Germany, Sweden, Denmark, Portugal, the Netherlands and the UK – said it would float its shares in two or three years, in London, Paris and Amsterdam.

Several French and foreign insurance groups have also shown interest in GAN since France's new socialist government confirmed it would proceed with the company's privatisation as planned by the previous administration. French insurers MAAF and AGF are among the candidates, as well as the Zurich group of Switzerland and Allianz, the German insurer. *Samer Iskandar, Paris*

■ DEGUSSA

Precious metals arm to be split off

Degussa, the German metals and chemicals group, yesterday raised the prospect of fresh restructuring when it revealed that it may split off its struggling precious metals division into a separate company in a renewed bid to make it more competitive.

However, the company stressed that ths restructuring – which could come as soon as October – would not involve the sale of the division, which has annual sales of more than DM6bn ($3.3bn) and about 3,000 employees. Analysts had anticipated s fresh move to boost shareholder value at Degussa after the purchase in May of a 36.4 per cent stake in the group by Veba, ths German power and industrial group, for DM2.9bn. The group said in January that the performance of its precious metals division was unsatisfactory. It blamed s strong downturn in the electronics area, especially in the US. *Graham Bowley, Frankfurt*

■ PORTUGAL

BCP ahead 21% in first half

Banco Comercial Português, Portugal's biggest commercial banking group, lifted first-half net consolidated profit 21.3 per cent from Es10.8bn in ths same period last year to Es13.1bn ($74.5bn). Earnings per share rose from Es91.6 to Es93.2, indicating that net income growth had offset the dilution of earnings caused by two capital increases in 1996 and 1997.

Income before taxes and minority interests climbed 31.1 per cent, from Es24.2bn to Es31.8bn. Mr Jorge Jardim Gonçalves, BCP president, said the group was ready to resume s strategy aimed at increasing market share after completing a restructuring process that followed the Es308bn acquisition of Banco Português do Atlâantico two years ago. *Peter Wise, Lisbon*

■ BANKING

New chief for Moscow Narodny

Russia's central bank yesterday moved to shake up the London-based Moscow Narodny Bank, in which it is a controlling shareholder, in an attempt to raise the commercial bank's profile in the UK. It announced the appointment of Mr igor Suvorov as MNB's chief executive with a brief to introduce tighter financial controls and develop the banks's trade financing activities more aggressively.

"Trade links between Russia and Britain are not as strong as they could be. Moscow Narodny Bank must find more clients in London," Mr Sergei Aleksashenko, s deputy chairman of the central bank, said yesterday. Mr Suvorov previously ran MNB's Singapore branch. The management shake-up follows the discovery earlier this year of a £6m potential fraud against the bank involving s US customer with Ukrainian connections. Moscow Narodny has begun legal action to recover the money. *John Thornhill, Moscow*

■ PHARMACEUTICALS

Elan jumps to $40.1m

Elan, the fast-growing Irish pharmaceuticals company, lifted net profits in its second quarter to $40.1m from $28m in the same period a year ago. However, an issue of new shares in the takeover last year of Athena Neurosciences, the California biotechnology company, held earnings per share st 38 cents, compared with 34 cents a year ago.

Elan, whose shares are listed on the New York Stock Exchange, reported revenues for the second quarter up from $67.6m to $85.8m. Some $45.6m of this came from product sales with most of the rest from royalties and fees. For the first six months, net income and earnings per share were $77.3m and 73 cents respectively, compared with $56.6m and 69 cents.

Elan shares were up $¾ at $47⅞ in early New York trading yesterday. *Daniel Green*

■ LUXURY GOODS

LVMH in FFr1.6bn acquisition

LVMH, the French luxury goods group, yesterday announced the FFr1.6bn ($262m) acquisition of Sephora, France's teading perfume and beauty products retailer. LVMH is buying the company, – which generated 1996 sales of FFr1.37bn from its 54 retail stores employing nearly 1,500 people – from the founders who established it in 1973. It said the deal was being financed by debt. *David Owen, Paris*

French bottling duo agree merger

By Samer Iskandar in Paris

Sidel, tbe Frencb manufacturer of machines that make plastic bottles, yesterday announced a merger with Gebo, specialtsts in bottling assembly lines.

The combined group is expected to hsve annual sales of between FFr4bn and FFr4.5bn ($655m-$737m), up from FFr3.6bn for the two companies in 1996.

Sidel expects the merger to give it a headstart in beer bottling, a market in which Gebo achieved 58 per cent of its sales last year.

Mr Francis Olivier, Sidel chairman, said he was "convinced that beer will shift to plastic [bottling] on s large scale". Beer has a very short shelf life in existing plastic packaging.

Sidel is also optimistic that ths globalisation of plastic bottling will continue at an annual growth rate of about 14 per cent until the year 2000.

Mr Pierre Schoen, Gebo chairman, said the merger would have a positive effect on earnings per share from next year.

He added that Gebo would continue to diversify into sectors in which production speed was becoming a priority, such as cosmetics, pharmaceuticals and detergents.

Last year, Sidel's sales fell 15.8 per cent to FFr3.1bn and profits declined 30 per cent to FFr263m.

Gebo had sales of FFr495.3m, up 30.8 per cent from 1995, and net profits of FFr58.3m, up 49.5 per cent. A public offering of shares on the Paris bourse in June 1996 was 36 times subscribed.

The merger will take the form of a share exchange, at a rate of 21 Sidel shares for 10 Gebo shares.

Koor marks shift for Claridge

By Avi Machlis in Jerusalem

Claridge-Israel, an investment arm of the Charles Bronfman family of Canada, yesterday paid its first instalment of $37m to Sbamrock Holdings of the US for a 10 per cent stake in Koor Industries, Israel's biggest industrial conglomerate.

Claridge will complete the $187m payment for the stake in 90 days and decide wbetber to exercise an option to bny Shamrock's remaining 10 per cent of Koor and de facto control of the concern.

The drive to control Koor marks a strategic shift for Claridge from a leading private investor in Israeli companies to an active player in a holding company that controls about 7 per cent of Israel's industrial output.

"Up until now we would have taken a minority stake in a company and behsved like sophisticated financial investors," said Mr Danny Biran, Ctsridge senior vice-president. "This time we are [considering] taking a majority stake and we will be much more active in the company. It's a different responsibility."

The billionaire family founded Claridge-Israel in 1990 to invest in Israeli companies. It is headed by Mr Jonathan Kolber.

Claridge has made several profitable investments in small Israeli companies which later became benchmarks, including Teva, the pharmaceuticals company, ECI Telecom and Osem, the foods company.

In 1991 Claridge bought 33 per cent of Osem for $27m. It took the company public in 1992 and last year sold its stake to Nestlé, the Swiss foods group, for a profit of $110m.

Mr Biran said Claridge has generated profits of between $500m and $600m in snch deals.

After announcing the deal with Shamrock, Claridge pulled out of a consortium bidding for Bank Hapoalim, Israel's biggest bank, which the government is in the process of privatising – the bank owns a 23 per cent stake in Koor.

But Claridge's involvement in the government's privatisation programme may not be over. Mr Keith Philips, Israel analyst at Société Générale, speculates Claridge may use Koor to acquire government companies slated for privatisation.

Claridge has not yet announced its strategy for Koor, but analysts believe it is not entering Koor to make a quick profit.

"They are experts in finding undervalued companies and not being too aggressive in active management," said one analyst. "Buying a holding company doesn't seem to fit in with that strategy, but Claridge probably has some very impressive plans for Koor."

هكذا من الاصل

Eureko joins GAN suitors

THE STET/TELECOM ITALIA MERGER, INTERPRETED BY MARIO SCHIFANO.

July 1997. Now Italy's global telecommunications business has one name: Telecom Italia.

On July 18th 1997, the merger of STET and Telecom Italia was completed. From now on, Italy's global telecommunications business is represented by a single company. Telecom Italia, which combines the resources and operations of the holding company with those of its main operating company.

The Telecom Italia Group hits the ground running: it's the world's sixth telecoms company by revenues and, through its subsidiary TIM, is also Europe's leading mobile telephony business.

Telecom Italia is looking to the future. With an eye to the ever increasing challenges of the global marketplace and the ever more advanced services which consumers demand. Telecom Italia is dedicated to becoming yet more competitive, without ever losing touch with the needs of its customers.

Its aim: simply to communicate better, both at home in Italy and around the world.

TELECOM ITALIA

Telecommunications in Italy and worldwide.

Carlsberg-Tetley ready to cut breweries

By Ross Tieman

Carlsberg-Tetley, the UK's third-largest brewer, is set to announce a drastic cost-cutting drive next month after its merger with Bass Brewers was blocked by Mrs Margaret Beckett, the trade secretary.

Analysts expect the company to end brewing at Alloa in Scotland and possibly Wrexham in Wales in a move to cnt production costs. Some of the 20 distribution depots and other sites may also close, they say.

The plan is being drawn up after Carlsberg, the Danisb brewer which is set to end up owning 85.1 per cent of Carlsberg-Tetley (CT), said it would take urgent steps to enhance the company's viability.

In evidence to a Monopolies and Mergers Commission inquiry, Carlsberg had warned that "there was a real risk that CT would enter a downward spiral" if the merger was blocked.

It warned that it would not be prepared to put further resources into the business, and operations would be scaled-down to concentrate on the Carlsberg lager and Tetley bitter brands.

Had the merger with Bass been consummatad, CT would have emerged as part of Britain's biggest brewer. Now it must choose a new strategy as a distant third, with 14 per cent of the market, against the 28 per cent of Scottish Courage and 23 per cent held by Bass.

Unlike its rivals, CT has no pubs of its own. It depends heavily for its profitability on an agreement to supply 1.85m barrels of beer a year at above-market prices to pubs owned by Allied Domecq.

That agreement expires in December. Under a new 10-year agreement, triggered by the collapse of the merger, Allied expects to save £42m ($70m) a year, and take substantially lower beer volumes. Last year, on sales of £1.04bn, CT made pre-tax profits of £57m.

Details of the restructuring will be presented to the 3,900-strong workforce by the chief executive, Mr Ebbe Dinesen, within weeks. In a letter to workers he warned that while the end of the Allied Domecq contract would "seriously affect our profitability" sales of the key Tetley and Carlsberg brands were up strongly this year.

In evidence to the MMG, CT said its Alloa and Wrexham breweries were "not of optimal size" and the Alloa site was "significantly dependent" on tha Allied Domecq pub estate in Scotland. "If the merger did not proceed CT would have to make significant reductions in capacity," it predicted.

Analysts say CT's Burton-on-Trent brewery is highly efficient, while its other two breweries, at Leeds and Northampton, are essential to its brand strategy.

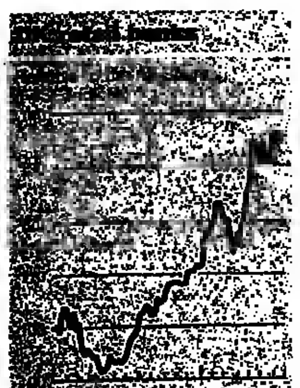
Some brokers believe CT may sell some of its lesser brands to rivals or regional brewers as part of tha restructuring.

The first £60m of proceeds from any divestment will be paid to Bass to cover its losses. The MMC inquiry was launched after Bass agreed last August to buy out Carlsberg's 50 per cent partner in CT, Allied Domecq, for £200m, and merge CT with its own brewing operation.

Bass is now expected to exercise its rights to sell the shares back to Carlsberg for £110m, claim a £30m refund from Allied Domecq, and pass on 14.9 per cent of CT shares to Allied as well.

LEX COMMENT

Nationwide



The resounding vote by Nationwida members against a collection of colourful would-be directors was a heartening vote against greed. The present value of the more generous mortgage/savings rates Nationwide promised as a continuing mutual society must be lower than the £2,000 members could have received from its conversion into a listed bank. And the maverick directors were unequivocally pursuing conversion. So it seems that the mutual society has joined warm beer and cricket as a symbol of a traditional Britain, which people will fight to preserve.

But Nationwide and the small band of fellow building societies should not rest easy. The carpetbaggers have been repulsed, but only for the moment. After all, Nationwide is still comparatively inefficient and its ability to pay out beneficial rates is largely a reflection of its large amount of "free" capital. New arrivals, from supermarkets to insurers, are pushing into an already crowded mortgage market offering more competitive rates. So it is doubtful that the mutuals are necessary to keep a banking cartel at bay. Besides, if mutuals are so marvellous, why did Nationwide want two years ago to merge with National & Provincial and become a bank?

So the war looks set to continue. A more credible raft of pro-conversion directors could easily be assembled. Furthermore, the government looks unlikely to hamstring carpetbaggers and the allure of potential takeover premiums will ensure they do not go away.

GrandMet faces elephant

Ross Tieman on the boardroom battle over the proposed merger

John McGrath: fiercely resists Mr Bernard Arnault's proposals

Trevor Humphries

In the parlance of Grand Metropolitan's boardroom, an "elephant" is a problem too big to be mentioned. The director who spots its presence is obliged to bring it to the attention of his colleagues, who must then confront the issue.

For the past several months, the elephant in the boardroom of the UK drinks group, and its would-he merger partner Guinness, has been Mr Bernard Arnault.

Directors hoped the chairman of French luxury goods group LVMH, then a Guinness non-executive, would ruminate quietly in the corner until their £24bn ($40bn) merger to create the world's leading wines and spirits company, GMG Brands, was completed at the year-end.

But with a string of highly publicised moves, the Breton entrepreneur has gradually elbowed the merger partners into talks aimed at including Moët Hennessy, LVMH's brandy and champagne subsidiary, in their tie-up.

Mr John McGrath, the chief executive of GrandMet and chief executive designate of GMC, said once the merger was consummated, there were plans for a follow-through deal with Moët Hennessy, which distributes in 10 countries through joint ventures with Guinness.

But Mr Arnault pushed Guinness and GrandMet on to the back foot by identifying mooth-watering savings from an immediate three-way combination of Moët Hennessy with GrandMet's International Distillers and Vintners and Cuinness's United Distillers.

In an 18-page proposal last week, he detailed savings of up to £50m a year from combining tbeir international drinks marketing and distribution.

But tha opportunity was tied up witb claims that GMG could release further value for shareboIders by simultaneously demerging its food, fast-food and brewing businesses. Specifically, Mr Arnault argued, the group would suffer from a "conglomerate discount" worth some £1.6hn if the parts remained together.

Mr McGratb yesterday flatly rebutted the suggestion. Exhaustive analysis sbowed, be said, that the parts of the business were not wortb more than tbe wbole. If they were, GrandMet would bave demerged them already.

Since he took cbarge at GrandMet at the start of last year, be says, the company has reviewed each of its businesses, and set itself a target of doubling sbareholder returns from each of tbem. "We are pretty open-minded about getting into and out of businesses," he said. "In the last three years we have sold £1.5bn of businesses." The future of Burger King, tbe fast-food cbain, has been reviewed every six months by advisers, including SBG Warburg. But Mr McGrath said that until the opportunities that will arise from Burger King's international expansion are properly valued in tbe GrandMet share price, be could not recommend demerger to the board.

Guinness says it has regularly reviewed tbe arguments for demerging its brewing business, and "the game's oot worth the candle".

But while Mr Arnault's ideas for demerger are fiercely resisted, the benefits possible from deeper collaboration between the threa drinks businesses are not disputed by GMG.

Mr McCrath said recent talks between GMG and Mr Arnault had been designed in part to see "if we could find an arrangement by whicb we could achieve these additional benefits".

The battle of wills is about bow tbe spoils will be divided. Mr Arnault has proposed swapping his stakes in Guinness and GrandMet, together with his 66 per cent share of Moët Hennessy, for 35 par cent of a merged drinks business worth about £18.6bn quoted In London and Paris.

This has been opposed by CMG directors on several grounds, Mr McGrath said.

First, "assuming you could bring together the three spirits companies on a no-premium basis, it is too complex a management task to do simultaneously with a demerger".

But the savings could possibly be achieved by a merger within the GMG structure, be believes.

Even so, he said, It would be unfair to allow Mr Arnault to exchange shares in Guinness and GrandMet for shares in the drinks business where the benefits of the merger will be concentrated.

Since Mr Arnault is now set to bold about 12 per cent of shares in GMG, be sbould have a proportional share of the merger benefits, Mr McGrath suggested.

Equally critical, "we need to have a shareholding structure which is not disadvantageous to Guinness and CrandMet shareholders or to the management of the company".

To date, most shareholders have remained supportive of the GMG merger proposal. But after a series of stock market raids, Mr Arnault now commands a stake of 11.05 per cent of GrandMet and 12.46 per cent of Guinness. That gives him the right to call an extraordinary meeting of eitber company to put his proposals directly to sharebolders.

Mindful of this leverage, directors of Guinness and GrandMet are now searching for a formula that will allow their Investors to reap some of tbe benefits available from a consolidation of Moët Hennessy within their combined International Distillers company, without conceding too much to Mr Arnault.

'No decision' on Formula One float date

By Clay Harris

The date of the proposed flotation of Formula Ona Holdings became more uncertain yesterday when its owner said: "No decision has ever been made with respect to timing."

The statement signals an effort to quell speculation over the planned issue and to dispel concerns about relations between Mr Bernie Ecclestona, FOH's creator and chief executive, and his financial adviser, the US investment bank Salomon Brothers. It was issued on behalf of the Ecclestone family trust which owns FOH.

It means that whila the issue is still not expected to be launcbed before late November, the date most recently mooted by Salomon, even that estimate no longer has any force. From now on, target dates will simply not be discussed until a firm announcement can be mada "in due course".

An adviser to tbe company, which markets broadcasting rights for Grand Prix motor racing, said yesterday: "The date has to be driven by the deal, not the other way around."

The statement said a public offer remained the "preferred course" but did not exclude other options.

The flotation plan has been bedevilled by a series of perceived delays. When the proposal was leaked in March, the target date was said to be by the time of the British Grand Prix in early July. In June, with holidays looming and several questions unresolved, September was advanced as the likely date. That was later massaged back to November.

The regularly receding target, plus a series of embarrassing disclosures about extracurricnlar financial advice being given by investment banks due to take part in the share issue combined to give the impression of a project in disarray.

Salomon's investment banking rivals and other parties with possible designs on FOH did nothing to discourage that view.

Salomon was also surprised to discover twice within a week that Mr Ecclestone, FOH's chief executive, had been engaged in secret talks on potential rival or fall-back plans.

Yesterday's statement was issued by the lawyer advising a family trust of Mr Ecclestone's wife, Slavica. It said the company's owner had considered a number of "strategic alternatives" in consultation with Salomon.

It continued: "An initial public offering is my client's preferred course of action and progress is being made in preparing the company for flotation.

"My client has asked me to make clear that Salomon Brothers are the shareholders' exclusive financial adviser and any proposals put forward will be evaluated by Salomon Brothers."

Although the statement was issued on the initiative of the Ecclestone family interests, it is believed to reflect a shared desire with Salomon to demonstrate fidelity and regain control over the float's publicity.

Ramco in agreed bid for JKX

By Robert Corzine

Ramco Energy, the Aim and American Stock Exchange-listed oil company, has agreed a £54m ($90m) all-share deal to take over JKX, the troubled explorer with Interests in Ukraine and Georgia.

The offer will be made on the basis of one new share for every 25 JKX shares. That values JKX at 46.3p a share, against a closing price of 47½p on Tuesday.

JKX has proven and probable reserves of 89m barrels of oil equivalent, which includes natural gas.

Sir Robert Horton, JKX's non-executive chairman, said the company would bring "operating experience in Ukraine and Georgia" to the enlarged group.

But Mr Steve Remp, Ramco's chairman and chief executive, made it clear that there was scope for substantial restructuring at JKX. "The history of JKX has been one of high spending," he said.

JKX was one of the first of the new generation of independent oil explorers and developers focused on tha formar Soviet Union. Although Mr David Robson, tha company's founder, secured access to good production and exploration assets in Ukraine, the company never lived up to early expectations. Its attempts to break into the Ukrainian natural gas market were dogged by political complications. Mr Robson left the company earlier this year.

Ramco wants to bring in a big oil company to operate the Ukrainian assets and to develop the operation in a bigger way than JKX envisaged.

Mr Remp acknowledged that the political situation in Ukraine was still complicated. But he said recent interest in tha country from Royal Dutch/Shell and British Petroleum was a positive development.

He said preliminary contacts with possibla partners had already taken place.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Brewin Dolphin	6 mths to June 27	23.6	(20.7)	4.08	(2.75)	11.6†	(8.2)	3	Oct 1	2.5	-	8
Bullough	6 mths to Apr 30	133.6	(168.1)	11.1♥	(4.23)	6.88	(2.05)	1.29	Sept 11	1.17	-	5.47
Deanes	6 mths to Mar 31	4.04	(4.37)	0.113L	(0.261L♠)	0.16L†	(7.7L)	-	-	-	-	-
Dyson (J&J)	Yr to Mar 31	58.9	(55.6)	3.56	(2.88)	17.2	(12.68)	3.75	Sept 15	3	5.75	4.5
Masthead	6 mths to June 30	-	(-)	1.08	(1.16)	1.8	(1.8)	1.7	Sept 17	1.7	-	12.7
Matthew Clark	Yr to Apr 30	570.7	(450.8)	40.6	(17.2♠)	31.8	(18.4)	15	Oct 7	15	24	24
Pace Micro	Yr to May 31	219.6	(195.6)	18.4	(18.2)	5.7	(6.1)	1.8	Nov 28	-	2.7	-
Reuters	6 mths to June 30	1,409	(1,438)	333	(342)	14.2	(14.6)	3.1	Sept 8	2.75	-	11.75
Southern Vectis	Yr to Apr 30	23.9	(25.1)	1.77	(1.8)	6.1	(4.8)	2.1	Sept 23	1.9	2.1	1.9
Spargo Consulting	6 mths to June 30	4.23	(4.04)	0.625	(0.602)	3.25	(3.1)	2.25	Sept 15	2	-	4.5
Sunderland	Yr to May 31 ✠	13.4	(7.17)	3.08	(2.37L)	44.5	(84.6L)	3.2	Nov 4	-	3.2	-

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Abtrust Scotland	Yr to May 31 ★	60.2	(53.74)	0.832	(0.666)	1.24	(0.99)	0.95	Sept 22	0.825	0.95	0.825
Danae	Yr to May 31 ★	80.66	(86.64)	0.579	(0.701)	7.8	(9.6)	4.875	Aug 29	4.875	8.25	8.25
Fleming American	6 mths to June 30	523.5	(438.3)	1.13	(1.45)	1.63	(2.1)	nil	-	nil	-	2.8
Invesco Tokyo	Yr to May 31 ‡	48.9	(60)	0.019	(0.052)	0.02	(0.05)	-	-	-	-	-
Schroder Emerging	Yr to May 31	101.33	(-)	0.099	(-)	0.1	(-)	-	-	-	-	-
Yeoman	6 mths to June 30	373.1	(298)	1.89	(2.05)	7.66	(8.32)	6	Sept 12	5.5	-	15.1

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. LAim stock. ✠Comparatives pro forma. ★Comparatives restated. ‡Comparatives for 16½ months.

Nationwide board wins vote for mutuality

By Christopher Brown-Humes and James Blitz

Nationwide, the UK's higgest bnilding society, yesterday won decisive backing for its plans to remain mntual after defeating rebel board candidates by a large margin.

Five existing board members gained abont 70 per cent of the vote after a postal ballot in whicb 1.3m of Nationwide's 3.5m memhers took pert. They defeated five dissidents wbose pro-conversion campaign aimed to deliver windfalls worth up to £2,000 ($3,340) to every member.

The victory margin stunned ohservers who believed tbe rebels would fare much better against a backdrop of massive speculation abont conversion bonanzas.

Other societies expressed relief, saying the vote was a clear endorsement of mntuality and a rejection of short-term greed. Many execntives had feared the 220-year old movament could have disappeared if Nationwide had lost.

Mr Brian Davis, Nationwide chief executive, said the result was a "clear turning point" for mutuals and a victory for competition on the high street.

About 950,000 Nationwide members turned their backs on a windfall, while the rebels each gained ahont 350,000 votes.

Pace shares dip 15%

By Virginia Marsh

Shares in Pace Micro Technology, the fallen star of last year's new issues market, lost a further 15 per cent yesterday after the company reported annual results showing a weak second half and warned that the outlook for this year remained uncertain.

Mr Pster Morgan, executive chairman, said the company – which produces receivers and decoders for satellite and cable television – was facing continuing uncertainty In its main markets because of ongoing changes in the broadcast sector.

The shares lost 9¼p to 53½p, less than a third of their price in last June's heavily oversubscribed flotation which valued the company at £386m ($645m).

The shares, floated at 172p, fell sharply after two profit warnings in quick succession this year. They have also been hit by the departure of one of the joint chief executives and the resignation of the finance director.

Bill Greenhough

An early version of the cotton gin: from left, Trevor Payne, Peter Hartill, chairman, and Keith Thompson

Tonic for gins

Peter Marsh on a new process that promises to improve cotton production around the world

A blow for lateral thinking among inventors of industrial machinery has been struck by a two-man team which has designed a radically new process for use in cotton production.

Keith Thompson and Trevor Payne, a pair of freelance engineers who previously worked on projects as diverse as construction equipment and lift design, turned their hand to cotton production after a chance encounter with cotton farmers in Tanzania last year.

From this followed a new design for cotton gins – machines used for tha past 200 years to separate the textile and seed parts of a cotton plant after harvesting and to put cotton threads in the appropriate form for spinning.

The machines promise to work faster than conventional gins without sacrificing the quality of the cotton, and could play a big part in increasing efficiency, particularly in tha developing world where cotton is a key industry.

Thompson predicts sales of the new gins, costing $130,000 (£77,800) each, could be running at more than 1,000 a year by 1999, with most of the manufacturing done under licence by specialised companies close to cotton farms.

Most gins use one of two basic ideas, separating the seed from the cotton threads either through a complicated system of rollers or shearing mechanisms. But while roller gins can work on high grades of cotton with a long "staple" or thread, they operate fairly slowly, at perhaps half the speed of the one tonne of cotton an hour that the new process can handle.

In contrast, saw gins work mnch faster bnt because they involve a shearing mechanism, they chop up the cotton threads into short lengths and are therefore not suitable for high grades of the material. Saw gins are widely used in the developing world but are often highly inefficient.

Thompson and Payne say their system can be used for both high and low grades of cotton and can be switched easily between them. Their design is based on a rotating horizontal disc which gathers cotton wool bundles with a series of leather pouches and passes the hundles passed a blade. This separates the thread bundles from the seeds which are channelled away for collection by an air stream.

Thompson says the pair used basic engineering skills to "identify and then rationalise or design out" problems with tha existing mechanisms to coma up with a new solution. The rotor was devised with the help of metallurgists from the aerospace industry, while the main parts in the machine are simple to make.

Their ideas have been greeted enthusiastically by representatives of the large US cotton ginning industry, which is to try out an early version of the system over the next few months.

"The designers went to the drawing board without any preconceived notions and came up with something totally unrelated to what's been tried before," says Scott Shepard, export sales manager at Consolidated Cotton Gin Company, a Texas-based company which is one of the US'a big three cotton gin suppbers.

Praise has also come from Bill Anthony, an investment executive at 3i, which decided to back the invention just a few months after hearing about it. "We get presented with a lot of crackpot ideas where the inventors won't let the commercial benefits come through," says Anthony. "These people were different; they really want their device to be successful and put into operation."

The UK investment group has paid £350,000 for a 30 per cent staka in Templeton Process Development, a Croydon-based company set up by Thompson and Payne to commercialise their ideas. Both men also have 30 per cent stakes, while Thompson is managing director and Payne is technical director.

An early version of the system is being built in a factory in Nottingham. It is due to be shipped to the US next week for testing in a US government agriculture station in New Mexico.

Assuming the trials are successful, the machine will undergo further tests in a gin station in Arizona run by Anderson Clayton, a big US cotton services company.

Tim Keilty, technical vice-president at the Phoenix-based company, says the design is "very innovative and has strong potential for the higher value end of the market," although it may still need some adaptation before it is ready for full exploitation.

There are thought to be more than 35,000 cotton gins around the world, mainly in countries outside the main developed blocs. The US and Australia also have large cotton production industries.

Over the next year, Templeton plans to license manufacturing to probably five companies around the world. Of these one eacb would be in India, China and Turkey and another in the UK, while Shepard at Consolidated is talking to Templeton about a US manufacturing licence.

Thompson and Payne developed their cotton system on a shoe string. Leaving aside the cash injection from 3i, design costs so far have been only about £70,000 – including £25,000 from a Department of Trade and Industry grant to belp small business inventors.

Lasers in deep water

A newly observed "dry-tunnel" pbenomenon will allow laser welders to make light work of deep-water engineering. Oil and gas finds are occurring in ever-deeper waters. But until now welding pipelines below the 200m limit for divers has been impossible. Engineers appear to have solved the problem by attempting laser welding through an inch of sea water.

"We were surprised to find that the carbon dioxide laser forms a very narrow column ahead of the beam," says William Deans, a senior lecturer in Aberdeen University's engineering department. "The laser heats the water to tremendous temperatires, 4,000°C, instantaneously vaporising it and creating a penetrating tunnel of superheated steam.

"Once this millimetre-thick dry corridor is formed, the light beam does not hava to pass through the water and can weld steel."

The tests were done in a hyperbaric chamber, where a pressure of 500m of sea water can be simulated. Deans believes the dry-tunnel phenomenon has not been reported before and the basic physics remains to be understood.

Currently, deep-sea repairs require "dry habitats" – water-tight sheds pumped full of oxygen and helium gas so that arc welding can take place. But these are demanding conditions for divers to work in and their prolonged decompression times make it very expensive.

Robots are deployed on mini-submarines to inspect and clean structures. But they cannot perform arc welding, mainly because the very strong electromagnetic forces make the electrode difficult to control.

"With a light-based system, there's no force generated," says Deans. "A robot wouldn't have any difficulty guiding it round a welding job."

The feasibility study was funded by tha European Commission. Deans and his colleague John Watson are considering development collaborations with a number of sub-sea contractors.

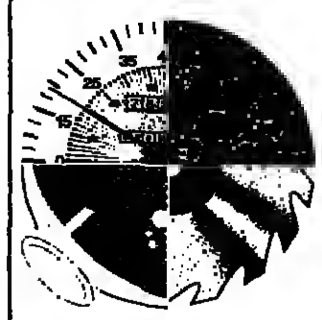
One unresolved aspect is the thickness of weld, says Dave Gibson, a welding expert from the National Hyperbaric Centre in Aberdeen.

"The laser they are currently using is about the size of a small car and can weld 6mm steel. But offshore structures are typically 25mm thick, whicb would require a laser the size of a large lorry. However, it's not out of the question, because the dry habitats which the lasers may replace are already very large themselves."

Previous articles in this series on new uses for lasers appeared on April 24, May 8 and July 8.

Damian Carrington

Worth Watching · Vanessa Houlder



Light shines on plastic LEDs

Researchers believe they have made a breakthrough in the performance of plastic light-emitting diodes (LEDs), which might lead to plastic-based computer monitors or television screens.

Researchers at the University of Rochester and Hewlett-Packard's Solid State Technology Laboratory managed to make plastic LEDs emit distinct patterns of light using lithographic techniques developed for silicon chips.

LEDs, optoelectronic devices able to convert electricity into light, are already widely used in simple electronic displays. Their range of applications would be greatly extended if it proves possible to produce a sharp and precisely controlled display.

University of Rochester: US, tel 7162734726; http://www.rochester.edu/

Synthetic antibiotics

As increasing numbers of bacteria develop resistance to conventional antibiotics, the search is oo to find viable replacements. But many antibiotics have a complex structure that makes them extremely difficult to synthesise.

Biochemists at Stanford University may have found a way round this with the development of a technique that hijacks the antibiotic-producing chemical pathways of bacteria, so that they produce a variety of new compounds.

The work, which is reported in the journal Science, uses genetically engineered enzymes to prodnce new types of polyketides, a family of molecules found in a number of antibiotic, immunosuppressant and anti-cancer drugs. The technique could be used to create a library of thousands of synthetic molecules that could be evaluated for their medical properties.

Stanford University: US, tel 4157236538; http://www.stanford.edu/news/

GPS dishes the dirt on pollution

The need to monitor and clean up contaminated land is intensifying, as governments try to encourage developers to find alternatives to developing greenfield sites. Scientists at AEA Technology in Oxfordshire bave used Global Positioning Satellites to develop a system to improve the accuracy of contaminated land surveys.

The Groundhog system, which fits in a backpack or oo a vehicle, receives information about its exact location from a GPS, while its radiation detectors take contamination readings. The data is integrated and downloaded into a Geographical Information System, producing detailed radiological contamination maps.

AEA Technology: UK, tel (0)1235 434434; fax 01235 436656.

Tiny pump that regulates the dose

US scientists have developed a miniature drug pump that might eventually simplify the life of diabetics by monitoring their glucose levels and pumping the right amount of insulin into their bloodstream.

Researchers at the Case Western Reserve University have built a prototype of a pump that monitors its own flow rate and adjusts its pumping rate to ensure a steady stream of medicine. Although miniature pumps and sensors are already available, the researchers believe their pump will be one of the first "closed-loop" systems that can regulate themselves without external intervention.

The device, has been tested in the laboratory and is being scaled down so it can be mass-prodnced like a compoter chip.

Case Western Reserve University: US, tel 3013686519; http://www.cwru.edu/

CONTRACTS & TENDERS

LEX COMMENT
Nationwide
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id for JKX

INTERNATIONAL CAPITAL MARKETS

Europe draws strength from US surge

GOVERNMENT BONDS

By Vincent Boland and Greta Steyn in London and John Labate in New York

European hond markets moved smartly ahead in early trading yesterday, after an overnight surge in US bond prices as investors concentrated on the positive aspects of the US economic summary presented by Mr Alan Greenspan, chairman of the Federal Reserve.

The markets closed off the day's highs on profit-taking but the cheerful tone was compounded by more Emu-convergence optimism, with analysts saying there was considerable upside for high-yielding bond markets.

Mr David Brown, chief European economist at Bear Stearns in London, said the combination of benign US inflation data, a rally in US Treasuries and bunds, a strong dollar and a falling D-Mark was "a very powerful argument for high-yield convergence gains to extend even further from here."

ITALIAN BTPs were certainly of that view, and the spread over German bunds continued to drop, reaching 80 basis points yesterday for a seven-point fall on the day. The strength of the lira against the eliding D-Mark was one of several factors, and analysts said this raised the prospect that the Bank of Italy might intervene or cut money market rates.

Tha Saptember bond futures contract settled in London at 138.04, up 0.48 but well off the day's high of 138.44.

SPANISH BONOS also hardened, with the spread over bunds narrowing to 63 basis points. The September futures contract settled at 118.23, up 0.25. Ms Ros Lifton, international bond economist at HSBC, noted that in the current favourable environment for bond investors, markets like Italy and Spain that "piggy-back on the benchmark markets tend to ontperform".

FRENCH BONDS also ended off the day's highs, taking their cue from more unsettled bunds and the weaker D-Mark. The September notional futures contract settled in Paris at 131.02, up 0.32, having touched 131.24.

UK GILTS shrugged off strong retail sales data which suggested the Bank of England would have to raise interest rates again to stave off inflation. The market moved briefly weaker on the figures before climbing to a contract high in choppy trading.

The bullish bandwagon set in motion by Mr Greenspan helped the auction of £2bn of 8 per cent gilts due 2021, which passed smoothly. There was a small "tail" – the difference between the average bid and the lowest accepted in the auction – which pleased traders. The cover was 2.32 times, which analysts said was reasonable. The September future settled at 115$\frac{3}{32}$, up from a previous 114$\frac{23}{32}$.

GERMAN BUNDS also followed US Treasuries higher, with the September future reaching a new contract high of 103.58 before settling at 103.22. There was some nervousness, however, ahead of today's meeting of the Bundesbank council. Expectations are that monetary policy will ramain unchanged.

US TREASURIES moved slightly higher in morning trading, awaiting tha second instalment of Mr Greenspan's testimony.

The benchmark 30-year bond rose ⅛ to 102$\frac{25}{32}$, yielding 6.400 per cent.

Among shorter-term securities, the two-year note was unchanged at 100$\frac{1}{32}$, yielding 5.841 per cent, while the 10-year bond rose $\frac{1}{32}$ to 103$\frac{15}{32}$, yielding 6.114 per cent.

On Tuesday, financial markets rallied as investors found few clues in the Federal Reserve chairman's Humphrey Hawkins testimony that the Fed would raise interest rates in the near future.

Tuesday's gains were also sparked by a US Treasury Department report that the June budget surplus had reached $54.5bn, which was well ahead of analysts' expectations.

Recent rising prices have kept the long bond yield at its lowest in seven months.

Life group in portfolio shift

By John Gapper, Banking Editor

Scottish Widows, the life assurance company and fund manager, has switched £250m ont of continental European equities and into cash and bonds, because of fears about the potential over-valuation of shares.

Mr Robin Garrow, head of global strategy at Scottish Widows Investment Management, said the group, which manages a total of £24bn, believed markets in the US, the UK and Europe were now over-valued.

The move is further evidence of the fears of many UK fund managers that they could be caught in an equity market downturn. In spite of this, markets have continued to be driven upwards.

Scottish Widows had invested £1.5bn in continental European equities, believing there was greater potential for shares to outperform there than in the US and the UK, but it has now reversed this stance.

UK fund managers have gradually shifted portfolios out of US equities in the past year, although this has led to them missing the most recent rise in the US market. The money has partly been shifted into cash and bonds.

The most sceptical stance towards equities has been taken by PDFM, the fund management arm of Union Bank of Switzerland, which shifted out of equities in March 1995 and has since been underperforming.

Mr Garrow said Scottish Widows had believed European shares offered better relative value than the US, but it was now hard to identify value in the level of indices or individual shares. "We hava not liked the US or UK for some time, hut we did like Europe. It's getting harder to find a market where we are comfortable with values," he said.

Scottish Widows has reduced its continental European holdings by 15-20 per cent, leading to a £250m reduction in its holdings.

Step-down bond by Pemex raises L750bn

INTERNATIONAL BONDS

By Edward Luce and Greta Steyn

Pemex, Mexico's leading oil company, upheld its reputation for innovation yesterday with the country's first step-down bond. The L750bn offering, its first 10-year in lira, pays a coupon of 10½ per cent until August 1999 and 7¾ per cent thereafter.

"We proposed this structure to Pemex on Monday and it executed the deal on Wednesday," said an official at DMG, book-runner with UBS and BCI. "There aren't that many borrowers who are so decisive."

Syndicate officials said the step-down structure had two main benefits. First, the high initial coupon would attract retail investors. Second, Italy's improving Emn prospects would appeal to institutional investors who would benefit from higher bond prices as Italy converged towards bunds ahead of 1999. About 80 per cent of yesterday's issue went to institutional investors.

Officials pointed out that the deal, which was priced to yield 150 basis points over BTPs, allowed Pemex to borrow at a lower spread than on its US dollar deht. Pemex's 10-year US dollar benchmark is currently trading at a spread of 240 basis points over Treasuries. "Only the lira market can provide this sort of arbitrage," said one banker.

Jordan's first "pure" eurobond was issued by *JORDAN* PHOSPHATE MINES, its largest foreign exchange earner. Jordan Telecom dipped its toe in the water in 1995 with a $50m World Bank-guaranteed deal.

Yesterday's $100m five-year floater, which is callable after three years, was priced as if it were Jordan's debut sovereign bond, said an official at HSBC Markets, sole book-runner. "Jordan Phosphate is comfortably the largest company in Jordan so this is a quasi-sovereign issue," he said.

The bond, which was priced to yield 150 basis points over Libor, was evenly distributed to investors in the middle east, the UK and continental Europe. Proceeds will go towards the expansion of Eshidiya, the company's flagship mine.

Jordan, which has a sovereign debt ceiling of Ba3/BB–, is expected to tap the eurobond market within a year.

The AFRICAN DEVELOPMENT Bank issued a Y30bn eurobond – its first subordinated debt issue in yen since 1993. The five-year issue, priced to yield 22 basis points over Japanese government bonds, was aimed at both retail and institutional investors. Book-runner Goldman Sachs said the spread was unchanged after launch.

Mr Thierry de Longuemar, the bank's treasurer, said the bank had opted for a subordinated structure to keep its subordinated debt at 40 per cent of its total debt.

"European and Asian fund managers have shown healthy demand for the bonds, and private clients are also interested. The lack of high coupon paper in yen has helped the issue," Mr De Longuemar said.

● Standard & Poor'a has placed five South Korean banks on CreditWatch with negative implications.

The US credit rating agency expressed concern about the "deteriorating asset quality" and "heightening industry risks" of the Korean banking system.

The banks affected by the S&P review comprise Hanil Bank, whose current rating is A–, Korea Exchange Bank (rated A2 on short-term debt), Korea First Bank (BBB–), Korea Long-Term Credit Bank (A–) and Shinhan Bank (A).

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
Tennessee Valley Auth(a)	500	6.75#	(a1)R	Nov 2025	-	+27(6⅞%Nov25)	Lehman Brothers Intl
American Express Credit Cp	400	6.50	99.95R	Aug 2002	0.30R	+36(WI 5yr)	Goldman Sachs Intl
Jordan Phosphate Mines(b)‡	100	(b1)	100.00R	Aug 2002	0.75R	–	HSBC Markets
Bicbanco(c)	75	9.875#	99.75R	Jul 2005	1.00R	+390(6¾%-00)	ANZ Investment Bank
Banco Cidade(d)	50	(d1)#	99.95R	Jul 2005	0.50R	+260(6¾%-00)	Credit Agricole Indosuez
YEN							
African Development Bank	30bn	1.85	99.896R	Aug 2002	0.25R	+22(JGB 148)	Goldman Sachs Intl
STERLING							
GECC	200	7.25	99.785R	Aug 2007	0.325R	+22(7¼%Dec07)	Goldman Sachs Intl
Morgan Guaranty Trust Co	100	7.25	99.876R	Aug 2000	0.1875R	+14(8%Dec00)	JP Morgan Securities
FRENCH FRANCS							
Crédit Local de France	2bn	6.75	99.00R	Aug 2012	0.45R	+19(I)	Société Générale
GECC	1.5bn	5.625	99.807R	Aug 2009	0.35R	+15(I)	Paribas
ITALIAN LIRE							
Pemex	750bn	(e)	99.95R	Aug 2007	0.60R	+150(swaps)	Deutsche Morgan Grenfell
World Bank(f)	100bn	Zero	100.00R	Aug 2002	0.15R	-	San Paolo/JP Morgan
PESETAS							
World Bank	16bn	5.00	100.728	Aug 2002	1.625	-	BCH/BSN/Merrill/UBS

Final terms, non-callable unless stated. Yield spread (over govt bond) at launch supplied by lead manager. ‡Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) Fungible with $600m. Plus 96 days accrued. a1) Priced today. b) Callable from Aug 00 at par. b1) 3-mth Libor +150bp. c) Puttable on 30/7/00 at 99½%. d) Callable and puttable on 28/7/00 at 99.20% & on 28/7/02 at 99.75%. d1) 8¼% to 28/7/00, then 9½%. e) 10½% to 13/8/99, then 7¾%. f) Redeemed at max of 104½% or (100% + MIB-30 index change over last 30 mths). I) Over interpolated yield.

Swiss Re issues earthquake bonds

By William Hall in Zurich

Swiss Re, the world's second biggest reinsurer, has issued the first investment grade earthquake honds. It has purchased $112.2m of California earthquake reinsurance coverage by placing $137m of two-year notes.

The private placement was offered in several tranches with interest rates ranging from 200 to 600 basis points over comparable US Treasuries, depending on the level of risk.

If losses from an earthquake exceed $18.5bn, investors lose one-third of their principal. If losses exceed $21bn, they lose two-thirds and if losses are more than $24bn, they lose everything. However, only holders of the $60m of Class B notes risk losing all their investment.

These notes hava been rated Ba1 by Moody's, the US rating agency, and the less risky Class A notes, where only 80 per cent of the principal is at risk, have been rated Baa3.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		10.000	10/07	125.8201	+0.850	6.50	6.88	7.02
Austria		5.625	07/07	100.4700	+0.070	5.58	5.65	5.88
Belgium		6.250	03/07	104.8200	+0.220	5.59	5.69	5.77
Canada *		7.250	06/07	109.8800	+0.580	5.91	5.98	6.15
Denmark		7.000	06/07	107.2500	+0.210	6.03	6.15	6.16
France	BTAN	4.750	03/02	100.7928	–	4.55	4.61	4.61
	OAT	5.500	04/07	101.0800	+0.290	5.35	5.46	5.59
Germany Bund		6.000	07/07	103.6100	–0.170	5.52	5.61	5.70
Ireland		6.000	08/08	111.6900	+0.550	6.27	6.41	6.58
Italy		6.750	02/07	103.5000	+0.960	6.26†	6.48	7.00
Japan	No 148	5.600	06/02	119.1677	+0.680	1.53	1.58	1.65
	No 182	3.000	09/05	105.7075	+0.340	2.23	2.28	2.38
Netherlands		5.750	02/07	102.1600	+0.180	5.45	5.55	5.58
Portugal		9.500	02/06	122.0400	+0.190	6.11	6.21	6.36
Spain		7.350	03/07	108.5700	+0.200	6.13	6.25	6.41
Sweden		8.000	08/07	111.5030	+0.700	6.41	6.54	6.77
UK Gilts		7.000	06/02	99-25	+7/32	7.05	7.12	6.92
		7.250	12/07	102-10	+17/32	6.93	7.06	7.05
		8.000	10/08	115-22	+19/32	6.99	7.09	7.11
US Treasury *		6.625	05/07	103-21	+26/32	6.12	6.21	6.40
		6.625	02/27	102-25	+42/32	6.41	6.50	6.71
ECU (French Govt)		5.500	04/07	97.8300	+0.200	5.79	5.90	5.87

London closing. *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: Standard & Poor's MMS.

US INTEREST RATES

Latest / Treasury Bills and Bond Yields

		One month	-	Two year	5.86
Prime rate	8½	Two month	-	Three year	5.80
Broker loan rate	7¼	Three month	5.20	Five year	6.04
Fed.funds	[illegible]	Six month	[illegible]	10-year	6.13
Fed.funds at intervention	[illegible]	One year	5.52	30-year	6.42

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	131.22	131.02	+0.32	131.24	130.94	139,338	210,702
Dec	99.96	99.80	+0.34	99.74	1,108	5,567	
Mar	99.36	99.20	+0.34	99.36	99.36	2	-

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

[illegible]

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	103.52	103.22	+0.18	103.58	103.17	213697	280679
Dec	102.55	102.33	+0.21	102.56	102.31	943	10620

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	CALLS Aug	Sep	Oct	Dec	PUTS Aug	Sep	Oct	Dec
10300	0.28	0.69	0.54	0.88	0.06	0.47	1.21	1.55
10350	0.05	0.43	0.36	0.69	0.33	0.71	1.53	1.86
10400	0	0.24	0.24	0.52	0.78	1.02	1.91	2.19

Est. vol. total, Calls 20621 Puts 41633. Previous day's open int., Calls 202925 Puts 277801

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	138.00	138.04	+0.48	138.44	137.80	67846	108871
Dec	109.80	109.82	+0.41	110.10	109.62	296	2384

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	CALLS Sep	Dec	PUTS Sep	Dec
8000		29.82		0
8050		29.32		0
8100		28.82		0

Est. vol. total, Calls 7368 Puts 7177. Previous day's open int., Calls 90981 Puts 121044

Spain

■ NOTIONAL SPANISH BONO FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	118.32	118.23	+0.26	118.51	118.16	78,729	85,813
Dec	–	102.06	–	–	–	103	293

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	115-11	115-16	+0-20	115-25	115-07	126830	189196
Dec	115-07	115-05	+0-20	115-07	115-02	428	2838

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

[illegible]

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	97.80	97.80	+0.40	97.90	97.60	1,767	6,850

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

[illegible]

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

[illegible]

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

FTSE Actuaries Govt. Securities — UK Indices

Price indices UK Gilts	Wed Jul 23	Day's change %	Tue Jul 22	Accrued interest	xd adj. ytd		Low coupon yield Jul 23	Jul 22	Yr. ago	Medium coupon yield Jul 23	Jul 22	Yr. ago	High coupon yield Jul 23	Jul 22	Yr. ago
1 Up to 5 years (20)	119.81	0.12	119.66	2.42	6.01	5 yrs	7.04	7.10	7.27	7.09	7.14	7.31	7.16	7.22	7.30
2 5-15 years (20)	153.10	0.43	152.45	2.12	7.01	15 yrs	6.90	6.99	8.09	6.94	7.02	8.11	7.05	7.12	8.17
3 Over 15 years (6)	185.79	0.90	184.14	6.69	5.02	20 yrs	6.90	6.98	8.18	6.88	6.97	8.19	7.02	7.10	8.23
4 Irredeemables (5)	215.92	1.44	213.87	2.08	8.36	Irred.†	6.96	7.08	8.23						
5 All stocks (51)	148.14	0.43	147.51	3.08	6.40										

Index-linked							Inflation 5% Jul 23	Jul 22	Yr. ago	Inflation 10% Jul 23	Jul 22	Yr. ago
6 Up to 5 years (2)	205.95	0.01	205.93	1.89	3.08	Up to 5 yrs	3.64	3.63	2.76	2.94	2.94	–1.14
7 Over 5 years (10)	200.40	0.08	200.27	1.11	3.96	Over 5 yrs	3.53	3.54	3.78	3.32	3.32	3.61
8 All stocks (12)	199.91	0.06	199.79	1.18	3.85							

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT Fixed Interest Indices

	Jul 23	Jul 22	Jul 21	Jul 18	Jul 17	Yr ago	High*	Low*
Govt. Secs. (UK)	97.72	97.20	96.92	97.08	97.08	93.10	97.72	93.31
Fixed interest	126.36	125.99	125.78	125.43	125.15	112.83	126.36	115.32

Gilt Edged Activity Indices

	Jul 22	Jul 21	Jul 18	Jul 17	Jul 16
Gilt Edged bargains	NA	NA	NA	NA	NA
5-day average	NA	NA	NA	NA	NA

 * for 1997. Government Securities high since compilation: 127.40 (09/01/35), low 49.18 (03/01/75). Fixed interest high since compilation: 133.87 (21/01/94), low 50.53 (03/01/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974. Gilt Edged volume data will be unavailable until further notice.

UK GILTS PRICES

[illegible]

Other Fixed Interest

[illegible]

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 5:55 pm on July 23

[illegible]

مكتبة الأصيل

CURRENCIES AND MONEY

The D-Mark plumbs new depths

MARKETS REPORT

By Simon Kuper

The D-Mark hit multi-year lows against several currencies yesterday, although it recovered modestly after the London close as traders took profits.

The German currency went into free-fall on Tuesday night after Mr Alan Greenspan, chairman of the Federal Reserve, said the US economy was growing faster and inflation was lower than the Fed had previously expected. That prompted enthusiastic buying of US stocks and bonds, boosting the dollar.

The US currency had already had a strong week thanks to growing belief that European monetary union will start on schedule. The market believes that Emu will produce a soft euro, because many of the qualifying countries could have weak fiscal positions. France admitted on Monday that its budget deficit for this year would probably exceed the entry criterion for Emu, and various Bundesbankers quickly indicated that they would find this acceptable.

The D-Mark yesterday hit its lowest level against the dollar since August 1991 at DM1.8325, its lowest against the pound since September 1989 at DM3.0878, its worst against the Swedish krona since October 1992, and its lowest against the Swiss franc since last August.

Mr Avinash Persaud, head of forex research at J.P. Morgan in Europe, said the dollar and pound buying was mainly due to purchases of US and UK stocks and bonds, and to hedging by companies against possible further rises in these currencies, rather than to a conviction that they would go on climbing.

The D-Mark rose on late profit taking prompted partly by Ms Alice Rivlin, vice chair of the Federal Reserve, who said the dollar might not rise much more. Late yesterday the D-Mark was at DM1.8290 to the dollar and DM3.0660 to the pound. That was respectively 1.6 pfennigs and 2.7 pfennigs below Tuesday's London close. But most of the D-Mark's slide had come late on Tuesday directly after Mr Greenspan's Humphrey-Hawkins testimony in the House of Representatives.

■ The Swiss franc, Norwegian krone and Swedish krona were the other main beneficiaries of the D-Mark's decline. Mr Persaud said this was because these currencies were seen as safe havens from the feared weak euro. Also, forex strategists said the Swiss and Scandinavian economies were gaining strength. Late yesterday the Norwegian krone was at NKr4.1010 to the D-Mark, up from NKr4.125 on Tuesday. The Swedish krona was at SKr4.2745 against the D-Mark from SKr4.301 on Tuesday, and the Swiss franc was 0.35 centimes stronger at SFr0.8135 to the German currency.

Mr Michael Lewis, senior economist at Deutsche Morgan Grenfell in London, warned that Switzerland, the UK and Italy had little desire to see their currencies soar against the D-Mark. But the market was testing the central banks' tolerance limits.

■ The Thai baht plunged again yesterday, taking other south east Asian currencies down with it. The region's central banks hope to calm the market when they meet in Shanghai tomorrow.

The baht closed yesterday at Bt32.35 against the dollar, down from Bt30.95 on Tuesday and well below the currency's Bt26 peg before the devaluation of July 2.

Most selling was by locals. Thai-based corporations, estimated to have a total of US$60bn in unhedged foreign debt, bought dollars to protect themselves against further declines in the baht. The Malaysian ringgit, Singapore dollar and Indonesian rupiah also fell.

Many of the region's central banks are no longer thought to have enough forex reserves to support their currencies. Bank Negara admitted on Tuesday that it had spent 12.5 per cent of its reserves defending the ringgit in the first half of July.

Treasury economists warned that the Shanghai meeting would probably fall short of a commitment to joint central bank intervention. They said the market should expect only a strongly-worded communiqué on the need to restore stability.

■ Pound in New York

Jul 23	Latest	Prev. close
£ spot	1.6820	1.6810
1 mth	1.6802	1.6792
3 mth	1.6764	1.6757
1 yr	1.6589	1.6588

■ OTHER CURRENCIES

Jul 23	£	$
Czech Rp	57.6598 - 57.7747	34.3070 - 34.3570
Hungary	327.821 - 328.083	195.050 - 195.090
Iran	5044.80 - 5042.10	3000.00 - 3000.00
Kuwait	0.5103 - 0.5107	0.3036 - 0.3037
Poland	5.7732 - 5.7847	3.4350 - 3.4400
Russia	9729.57 - 9738.15	5788.00 - 5791.00
U.A.E.	6.1690 - 6.1774	3.6705 - 3.6735

POUND SPOT FORWARD AGAINST THE POUND

Jul 23		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	21.6147	+0.229	024 - 269	21.7197	21.4343	21.5805	3.0	21.4475	3.1	20.9421	3.1	101.5
Belgium	(BFr)	63.4466	+0.7044	960 - 972	63.7390	62.9520	63.2666	3.4	62.8966	3.5	61.1466	3.6	100.7
Denmark	(DKr)	11.6973	+0.125	918 - 028	11.7501	11.6231	11.6658	3.2	11.6018	3.3	11.3103	3.3	102.7
Finland	(FM)	9.0362	+0.0676	296 - 428	9.0930	8.9850	9.0106	3.4	8.9583	3.4	8.7457	3.2	81.5
France	(FFr)	10.3585	+0.1168	540 - 630	10.4058	10.2904	10.3265	3.8	10.2685	3.5	9.993	3.5	103.2
Germany	(DM)	3.0720	+0.0328	703 - 736	3.0887	3.0525	3.0627	3.7	3.0436	3.7	2.9567	3.8	101.2
Greece	(Dr)	479.548	+4.069	302 - 794	482.179	477.417	481.331	-4.5	483.955	-3.7	492.323	-2.7	65.0
Ireland	(I£)	1.1387	+0.0061	372 - 401	1.1415	1.1303	1.1382	0.5	1.1368	0.7	1.126	1.1	98.3
Italy	(L)	2985.77	+33.1	391 - 763	2989.50	2968.66	2985.65	0.0	2985.82	0.0	2983.22	0.1	75.8
Luxembourg	(LFr)	63.4466	+0.7044	960 - 972	63.7390	62.9520	63.2666	3.4	62.8966	3.5	61.1466	3.6	100.7
Netherlands	(Fl)	3.4596	+0.0383	580 - 611	3.4780	3.4378	3.4494	3.5	3.4285	3.6	3.3325	3.7	99.9
Norway	(NKr)	12.6031	+0.0855	955 - 107	12.7134	12.5477	12.5708	3.1	12.5096	3.0	12.2406	2.9	98.1
Portugal	(Es)	310.172	+3.336	921 - 423	311.573	308.106	310.016	0.5	309.496	0.9	305.398	1.5	91.7
Spain	(Pta)	258.697	+2.89	576 - 798	259.910	256.650	258.372	1.5	257.822	1.6	253.252	2.1	76.2
Sweden	(SKr)	13.1665	+0.0858	567 - 763	13.2122	13.1181	13.139	2.5	13.0805	2.6	12.824	2.6	85.7
Switzerland	(SFr)	2.4989	+0.0169	975 - 002	2.5098	2.4894	2.488	5.3	2.4654	5.4	2.3651	5.4	106.0
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	105.6
Ecu	-	1.5500	+0.0138	489 - 510	1.5581	1.5424	1.5467	2.8	1.5395	2.7	1.5055	2.9	-
SDR†	-	1.221371	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.6809	+0.0044	804 - 814	1.6858	1.6772	-	-	-	-	-	-	-
Brazil	(R$)	1.8190	+0.0061	183 - 197	1.8235	1.8142	-	-	-	-	-	-	-
Canada	(C$)	2.3215	+0.0081	204 - 225	2.3234	2.3114	2.3146	3.5	2.301	3.5	2.2501	3.1	84.6
Mexico	(New Peso)	13.1828	+0.0039	750 - 905	13.2121	13.1432	-	-	-	-	-	-	-
USA	($)	1.6812	+0.0045	807 - 819	1.6861	1.6775	1.6794	1.3	1.6757	1.3	1.6584	1.4	104.5
Pacific/Middle East/Africa													
Australia	(A$)	2.2828	+0.0146	814 - 842	2.2878	2.2700	2.2822	0.3	2.2803	0.4	2.2702	0.5	81.9
Hong Kong	(HK$)	13.0239	+0.034	195 - 282	13.0622	12.9958	13.0229	0.1	13.0184	0.2	12.9614	0.5	-
India	(Rs)	60.0067	+0.1569	674 - 499	60.4640	59.8960	60.2039	-3.9	60.6044	-4.0	62.2842	-3.8	-
Israel	(Shk)	5.9081	+0.0089	982 - 179	5.9419	5.8980	-	-	-	-	-	-	-
Japan	(Y)	194.719	+0.867	608 - 830	195.210	193.320	193.699	6.3	191.674	6.3	182.889	6.2	133.6
Malaysia	(M$)	4.4340	+0.0226	303 - 377	4.4479	4.4014	4.4383	-1.2	4.4463	-1.1	4.4649	-0.7	-
New Zealand	(NZ$)	2.5882	-0.0011	865 - 899	2.5951	2.5755	2.588	0.1	2.589	-0.1	2.5962	-0.3	108.1
Philippines	(Peso)	47.8288	+0.1089	638 - 938	48.8159	47.5460	47.9886	-4.0	48.2381	-3.4	49.2951	-3.1	-
Saudi Arabia	(SR)	6.3054	+0.0167	036 - 072	6.3239	6.2920	6.3019	0.7	6.2934	0.8	6.257	0.9	-
Singapore	(S$)	2.4657	+0.0174	642 - 672	2.4726	2.4474	2.4611	2.3	2.451	2.4	2.4028	2.6	-
South Africa	(R)	7.6711	+0.0019	665 - 757	7.6962	7.6629	7.7316	-9.5	7.8497	-9.3	8.2866	-8.0	-
South Korea	(Won)	1502.95	+3.14	834 - 755	1507.70	1498.25	-	-	-	-	-	-	-
Taiwan	(T$)	46.9966	+0.1496	420 - 512	47.1231	46.8777	46.98	0.4	46.9402	0.5	46.7426	0.5	-
Thailand	(Bt)	54.3858	+2.491	185 - 320	54.6670	54.1020	54.7219	-7.4	55.1835	-5.9	56.2137	-3.4	-

† Rates for Jul 21. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.
The exchange rates printed in this table are also available on the Internet at http://www.FT.com

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Jul 23		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P Morgan index
Europe													
Austria	(Sch)	12.8571	+0.1025	532 - 609	12.8900	12.7820	12.8331	2.2	12.7841	2.3	12.5601	2.3	101.4
Belgium	(BFr)	37.7400	+0.32	200 - 600	37.8410	37.4270	37.665	2.4	37.5135	2.4	36.82	2.4	100.9
Denmark	(DKr)	6.9579	+0.0581	565 - 593	6.9725	6.9206	6.9462	2.0	6.9219	2.1	6.8155	2.0	102.2
Finland	(FM)	5.3750	+0.026	725 - 775	5.3966	5.3467	5.3635	2.6	5.3399	2.6	5.246	2.4	91.0
France	(FFr)	6.1618	+0.0532	605 - 626	6.1720	6.1270	6.1501	2.2	6.1262	2.3	6.0174	2.3	102.8
Germany	(DM)	1.8273	+0.0146	268 - 278	1.8325	1.8175	1.8235	2.5	1.8156	2.6	1.7807	2.5	101.0
Greece	(Dr)	285.250	+1.87	180 - 320	286.120	284.270	286.545	-5.4	288.6	-4.7	295.75	-3.7	64.6
Ireland	(I£)	1.4765	-0.0065	750 - 779	1.4855	1.4732	1.4757	0.6	1.4748	0.5	1.4752	0.1	-
Italy	(L)	1776.03	+15.03	540 - 666	1782.00	1768.25	1777.8	-1.2	1780.81	-1.1	1784.23	-0.5	75.5
Luxembourg	(LFr)	37.7400	+0.32	200 - 600	37.8410	37.4270	37.665	2.4	37.5135	2.4	36.82	2.4	100.9
Netherlands	(Fl)	2.0579	+0.0174	575 - 582	2.0630	2.0467	2.0537	2.5	2.0452	2.5	2.0074	2.5	100.2
Norway	(NKr)	7.4967	+0.0192	942 - 992	7.5595	7.4711	7.4822	2.3	7.4538	2.3	7.3421	2.1	95.2
Portugal	(Es)	184.500	+1.5	400 - 600	185.350	183.440	184.464	0.2	184.41	0.2	183.24	0.7	92.4
Spain	(Pta)	153.875	+1.315	850 - 900	154.250	152.750	153.83	0.4	153.655	0.6	152.48	0.9	75.9
Sweden	(SKr)	7.8319	+0.0364	281 - 356	7.8500	7.8104	7.8228	1.4	7.8035	1.5	7.7295	1.3	85.2
Switzerland	(SFr)	1.4864	+0.0061	860 - 868	1.4900	1.4823	1.481	4.3	1.4704	4.3	1.4249	4.1	105.8
UK	(£)	1.6812	+0.0045	807 - 816	1.6861	1.6775	1.6794	1.3	1.6757	1.3	1.6593	1.3	105.4
Ecu	-	1.0847	-0.0068	842 - 851	1.0887	1.0815	1.0861	-1.6	1.0894	-1.7	1.1049	-1.9	-
SDR†	-	0.72940	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9999	-	998 - 999	0.9999	0.9998	-	-	-	-	-	-	-
Brazil	(R$)	1.0820	+0.0008	819 - 821	1.0825	1.0816	-	-	-	-	-	-	-
Canada	(C$)	1.3808	+0.0011	806 - 911	1.3813	1.3755	1.3778	2.7	1.372	2.6	1.3515	2.1	84.6
Mexico	(New Peso)	7.8415	-0.0185	390 - 440	7.8450	7.8380	7.95	-16.6	8.181	-16.3	9.0715	-15.7	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	105.2
Pacific/Middle East/Africa													
Australia	(A$)	1.3579	+0.0052	574 - 583	1.3592	1.3569	1.3577	0.2	1.3572	0.2	1.3528	0.4	93.9
Hong Kong	(HK$)	7.7470	-0.0003	465 - 475	7.7487	7.7460	7.7475	-0.1	7.7484	-0.1	7.7507	0.0	-
India	(Rs)	35.6950	-	800 - 100	35.9050	35.6500	35.8325	-4.6	36.1175	-4.7	37.33	-4.6	-
Israel	(Shk)	3.5143	-0.0052	094 - 192	3.5360	3.5084	-	-	-	-	-	-	-
Japan	(Y)	115.825	+0.21	790 - 860	115.880	115.130	115.31	5.3	114.31	5.2	110.01	5.0	135.0
Malaysia	(M$)	2.6375	+0.0065	360 - 390	2.6400	2.6230	2.642	-2.0	2.651	-2.0	2.681	-1.6	-
New Zealand	(NZ$)	1.5395	-0.0048	389 - 401	1.5410	1.5385	1.5403	-0.6	1.5427	-0.8	1.5528	-0.9	-
Philippines	(Peso)	28.4500	-0.01	000 - 000	29.1000	28.2000	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7507	-	506 - 507	3.7508	3.7505	3.7514	-0.2	3.7524	-0.2	3.7571	-0.2	-
Singapore	(S$)	1.4667	+0.0065	662 - 672	1.4699	1.4579	1.4649	1.4	1.4611	1.5	1.4417	1.7	-
South Africa	(R)	4.5630	-0.011	615 - 645	4.5726	4.5610	4.6035	-10.7	4.683	-10.5	4.9855	-9.3	-
South Korea	(Won)	894.000	-0.5	500 - 500	896.600	890.400	-	-	-	-	-	-	-
Taiwan	(T$)	27.9550	+0.015	300 - 800	27.9980	27.9250	27.966	-0.5	27.975	-0.3	28.0675	-0.4	-
Thailand	(Bt)	32.3500	+1.4	000 - 000	32.6000	30.1500	32.795	-16.5	33.5	-14.2	34.73	-7.4	-

† SDR rate per $ for Jul 21. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Jul 18: Base average 1990=100.
The exchange rates printed in this table are also available on the Internet at http://www.FT.com

WORLD INTEREST RATES

MONEY RATES

July 23	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.00	2.50	-
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	3.10	-	4.75
Germany	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.50	2.50	3.00
Ireland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	6.75
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7.75	6.25	6.82
Netherlands	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	2.50	2.90
Switzerland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	1.00	-
US	[illegible]	[illegible]	[illegible]	[illegible]	6	-	5.00	-
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	0.50	-
■ $ LIBOR FT London								
Interbank Fixing	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
US Dollar CDs	-	5.42	5.48	5.55	5.69	-	-	-
ECU Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
SDR Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo Mitsubishi, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Jul 23	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Danish Krone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
German Mark	[illegible] - 3	[illegible] - 3	[illegible] - 3	[illegible]	[illegible]	[illegible]
Dutch Guilder	3¼ - 3	[illegible]	3¼ - 3½	[illegible]	[illegible]	[illegible]
French Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portuguese Esc.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spanish Peseta	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Swiss Franc	[illegible]	[illegible] - 1½	[illegible]	[illegible]	[illegible]	[illegible]
Canadian Dollar	[illegible]	[illegible]	3½ - [illegible]	[illegible]	[illegible]	[illegible]
US Dollar	5½ - [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italian Lira	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japanese Yen	[illegible] - ½	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Asian $Sing	[illegible]	[illegible]	4¼ - 4⅛	4¼ - 4	4¼ - 4	4¼ - 4

Short term rates are call for the US Dollar and Yen, others: two days' notice

■ THREE MONTH PIBOR FUTURES (MATIF) Paris Interbank offered rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	96.60	96.55	-0.01	96.60	96.55	25,571	65,419
Dec	96.52	96.46	-0.02	96.54	96.47	18,183	33,737
Mar	96.45	96.40	-0.03	96.48	96.40	749	26,390

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	96.79	96.76	-0.02	96.80	96.75	35285	294503
Dec	96.69	96.61	-0.04	96.69	96.59	55953	272426
Mar	96.60	96.50	-0.04	96.60	96.48	58761	267077
Jun	96.43	96.32	-0.07	96.43	96.31	43986	190602

■ ONE MONTH EUROMARK FUTURES (LIFFE)* DM3m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Aug	-	96.85	-0.01	-	-	0	490
Sep	-	96.82	-0.01	-	-	0	298
Oct	-	96.81	-0.01	-	-	0	265
Nov	96.78	96.78	-0.02	96.78	96.76	10	50

■ THREE MONTH EUROLIRA FUTURES (LIFFE)* L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	93.35	93.34	+0.01	93.37	93.32	12433	110143
Dec	93.78	93.76	+0.02	93.79	93.75	12494	86692
Mar	94.14	94.13	+0.03	94.17	94.12	10250	50900
Jun	94.42	94.42	+0.04	94.46	94.41	6860	40458

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	98.51	98.48	-0.01	98.54	98.47	11757	58500
Dec	98.37	98.34	-0.01	98.40	98.32	9112	45953
Mar	98.28	98.24	-0.01	98.30	98.23	2780	19379
Jun	98.13	98.09	-0.01	98.15	98.10	1140	7015

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	-	99.33	-	-	-	0	n/a
Dec	-	99.23	+0.02	-	-	0	n/a
Mar	-	99.06	+0.04	-	-	0	n/a

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	95.78	95.74	-0.01	95.79	95.71	1285	10631
Dec	95.76	95.71	-0.02	95.76	95.70	638	7746
Mar	95.77	95.72	-0.03	95.77	95.71	626	5224
Jun	95.75	95.69	-0.03	95.75	95.69	92	3158

* LIFFE futures also traded on APT

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	Calls Sep	Calls Dec	Calls Mar	Puts Sep	Puts Dec	Puts Mar
9325	0.19	0.57	0.96	0.09	0.06	0.08
9350	0.06	0.38	0.75	0.22	0.12	0.12
9375	0.01	0.23	0.56	0.42	0.22	0.19

Est. vol. total, Calls 2630 Puts 931. Previous day's open int., Calls 121626 Puts 60314

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Jul 23		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.44	16.33	4.842	1.795	4706	5.453	19.86	488.9	407.7	20.75	3.938	1.576	3.659	2.650	306.9	2.443
Denmark	(DKr)	54.24	10	8.856	2.626	0.973	2553	2.958	10.77	265.2	221.2	11.26	2.136	0.855	1.985	1.437	166.5	1.325
France	(FFr)	61.25	11.29	10	2.966	1.099	2882	3.340	12.17	299.4	249.7	12.71	2.412	0.965	2.241	1.623	188.0	1.496
Germany	(DM)	20.65	3.806	3.372	1	0.371	971.9	1.126	4.103	101.0	84.21	4.286	0.813	0.326	0.756	0.547	63.39	0.505
Ireland	(I£)	55.72	10.27	9.098	2.698	1	2622	3.038	11.07	272.4	227.2	11.56	2.195	0.878	2.039	1.477	171.0	1.361
Italy	(L)	2.125	0.392	0.347	0.103	0.038	100	0.116	0.422	10.39	8.664	0.441	0.084	0.034	0.078	0.056	6.522	0.052
Netherlands	(Fl)	18.34	3.381	2.994	0.888	0.329	863.0	1	3.643	89.65	74.77	3.806	0.722	0.289	0.671	0.486	56.28	0.448
Norway	(NKr)	50.34	9.281	8.219	2.437	0.903	2369	2.745	10	246.1	205.3	10.45	1.983	0.793	1.842	1.334	154.5	1.230
Portugal	(Es)	20.46	3.771	3.340	0.990	0.367	962.6	1.115	4.063	100	83.40	4.245	0.806	0.322	0.748	0.542	62.78	0.500
Spain	(Pta)	24.53	4.522	4.004	1.188	0.440	1154	1.337	4.872	119.9	100	5.090	0.966	0.387	0.897	0.650	75.27	0.599
Sweden	(SKr)	48.19	8.884	7.867	2.333	0.865	2268	2.628	9.572	235.6	196.5	10	1.898	0.759	1.763	1.277	147.8	1.177
Switzerland	(SFr)	25.39	4.681	4.145	1.229	0.456	1195	1.384	5.044	124.1	103.5	5.269	1	0.400	0.929	0.673	77.92	0.620
UK	(£)	63.45	11.70	10.36	3.072	1.139	2986	3.460	12.60	310.2	258.7	13.17	2.499	1	2.322	1.681	194.7	1.550
Canada	(C$)	27.33	5.039	4.462	1.323	0.490	1286	1.490	5.429	133.6	111.4	5.672	1.076	0.431	1	0.724	83.86	0.668
USA	($)	37.74	6.958	6.162	1.827	0.677	1776	2.058	7.497	184.5	153.9	7.832	1.486	0.595	1.381	1	115.8	0.922
Japan	(Y)	32.58	6.007	5.320	1.578	0.585	1533	1.777	6.472	159.3	132.8	6.762	1.283	0.514	1.192	0.863	100	0.796
Ecu	-	40.94	7.547	6.683	1.982	0.735	1926	2.232	8.132	200.1	166.9	8.495	1.612	0.645	1.498	1.085	125.6	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	0.5504	0.5485	-0.0017	0.5520	0.5476	43,226	128,858
Dec	0.5524	0.5517	-0.0020	0.5524	0.5517	242	1,335
Mar	-	0.5555	-0.0016	-	0.5582	33	544

■ JAPANESE YEN FUTURES (IMM) Yen 12.5m per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	0.8767	0.8732	-0.0009	0.8775	0.8713	20,698	58,001
Dec	0.8840	0.8840	-0.0013	0.8860	0.8840	209	1,631
Mar	-	0.8967	-	-	-	70	222

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	0.6796	0.6754	-0.0034	0.6796	0.6746	14,336	53,887
Dec	0.6852	0.6835	-0.0023	0.6852	0.6823	223	1,451
Mar	0.6895	0.6895	-0.0036	0.6895	0.6895	11	953

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	1.6788	1.6794	+0.0036	1.6882	1.6746	6,540	64,547
Dec	1.6740	1.6740	+0.0040	1.6740	1.6730	24	879
Mar	-	1.6680	+0.0040	1.6680	-	234	199

UK INTEREST RATES

LONDON MONEY RATES

Jul 23	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	7 - 6⅞	[illegible]	[illegible]	[illegible]	7¼ - 7⅛	7½ - 7⅜
Sterling CDs	-	-	[illegible]	[illegible]	[illegible]	[illegible]
Treasury Bills	-	-	[illegible]	[illegible]	-	-
Bank Bills	-	-	[illegible]	[illegible]	[illegible]	-
Local authority deps.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Discount Market deps	[illegible]	[illegible]	-	-	-	-

UK clearing bank base lending rate 6¾ per cent from Jul 10, 1997

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	2½	5½	5	5	4¾

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1¼pc.
Ave. tender rate of discount on Jul 18, 6.5774pc. ECGD fixed rate Stlg. Export Finance. Make up day Jun 30, 1997. Agreed rate for period Jul 26, 1997 to Aug 25, 1997, Scheme III 7.59pc. Reference rate for period May 31, 1997 to Jun 30, 1997, Schemes IV & V 6.736pc. Finance House Base Rate 7pc from Jul 1, 1997

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	92.82	92.81	+0.01	92.84	92.79	25704	124086
Dec	92.82	92.68	+0.03	92.68	92.59	43324	127587
Mar	92.54	92.58	+0.04	92.60	92.51	33245	105364
Jun	92.55	92.58	+0.06	92.62	92.52	23630	73321
Sep	92.60	92.64	+0.07	92.66	92.59	10209	53609

Also traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	Calls Sep	Calls Dec	Calls Mar	Puts Sep	Puts Dec	Puts Mar
9275	0.13	0.09	0.13	0.07	0.21	0.32
9300	0.02	0.03	0.06	0.21	0.40	0.50
9325	0	0	0.02	0.44	0.62	0.71

Est. vol. total, Calls 7900 Puts 11000. Previous day's open int., Calls 174226 Puts 163129

BASE LENDING RATES

	%		%		%
Adam & Company	6.75	Duncan Lawrie	6.75	Scottish Widows Bank	6.75
Allied Irish Bank (GB)	6.75	Exeter Bank Limited	7.75	●Singer & Friedlander	6.75
●Henry Ansbacher	6.75	Financial & Gen Bank	7.50	●Smith & Williamson Secs	6.75
Bank of Baroda	6.75	●Robert Fleming & Co	6.75	Sun Banking Corp Ltd	6.75
Banco Bilbao Vizcaya	6.75	●Guinness Mahon	6.75	TSB	6.75
Bank of Cyprus	6.75	Habib Bank AG Zurich	6.75	United Bank of Kuwait	6.75
Bank of Ireland	6.75	●Hambros Bank	6.75	Unity Trust Bank Plc	6.50
Bank of India	6.75	Heritable & Gen Inv Bk	6.75	Western Trust	6.50
Bank of Scotland	6.75	C. Hoare & Co	6.75	Whiteaway Laidlaw	6.75
Barclays Bank	6.75	Hongkong & Shanghai	6.75	Yorkshire Bank	6.75
Brit Bk of Mid East	6.50	Investec Bank (UK) Ltd	6.75		
●Brown Shipley & Co Ltd	6.75	Julian Hodge Bank	6.75		
Citibank NA	6.75	●Leopold Joseph & Sons	6.75		
Clydesdale Bank	6.75	Lloyds Bank	6.75		
The Co-operative Bank	6.75	Midland Bank	6.75		
Coutts & Co	6.75	NatWestminster	6.75		
Cyprus Popular Bank	6.75	●Rea Brothers	6.75		
		Royal Bk of Scotland	6.75		

● Members of London Investment Banking Association
* In administration

EMS EUROPEAN CURRENCY UNIT RATES

Jul 23	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Finland	5.85424	5.84314	-0.01092	-0.19	3.90	1
Italy	1906.48	1931.38	+2.16	1.31	2.37	-9
Portugal	197.398	200.482	+0.276	1.56	2.11	-10
Ireland	0.798709	0.734584	-0.001934	-8.03	12.78	54
Spain	163.826	167.226	+0.233	2.08	1.60	-14
Denmark	7.34555	7.56386	+0.01197	2.97	0.71	-20
Netherlands	2.16979	2.23754	+0.00469	3.12	0.56	-23
Germany	1.92573	1.98690	+0.00345	3.16	0.51	-31
Austria	13.5485	13.9793	+0.0235	3.16	0.51	-23
Belgium	39.7191	41.0216	+0.0749	3.28	0.41	-24
France	6.45863	6.69785	+0.00863	3.70	0.00	-31
NON ERM MEMBERS						
Greece	295.269	310.116	-0.2	5.03	-1.26	-
UK	0.793103	0.646004	-0.006386	-18.55	27.32	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate. 17/9/92: Sterling suspended from ERM. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	Calls Aug	Calls Sep	Calls Oct	Puts Aug	Puts Sep	Puts Oct
1.660	2.45	3.02	3.50	0.78	1.53	2.17
1.670	1.81	2.51	2.94	1.13	1.96	2.57
1.680	1.29	1.99	2.51	1.62	2.51	3.10

Previous day's vol., Calls 350 Puts 127. Prev. day's open int., Calls 31,331 Puts 34,881

■ PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 ($ per DM)

Strike Price	Calls Aug	Calls Sep	Calls Oct	Puts Aug	Puts Sep	Puts Oct
0.555	0.58	0.89	1.14	0.60	0.80	0.97
0.560	0.39	0.66	0.90	0.87	1.05	1.24
0.560	0.24	0.48	0.70	1.23	1.38	1.55

Previous day's vol., Calls 1,711 Puts 1,807. Prev. day's open int., Calls 6,099 Puts 10,040

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	94.26	94.27	-0.01	94.28	94.26	51,606	529,594
Dec	94.13	94.13	+0.02	94.14	94.12	106,573	467,173
Mar	94.09	94.10	+0.02	94.11	94.09	104,775	328,194

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	94.92	94.92	+0.01	94.92	94.91	117	7,631
Dec	94.81	94.82	+0.02	94.82	94.81	20	646

All Open interest figs. are for previous day

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

Strike Price	Calls Aug	Calls Sep	Calls Oct	Calls Dec	Puts Aug	Puts Sep	Puts Oct	Puts Dec
9675	0.04	0.06	0.03	0.05	0.03	0.05	0.17	0.19
9700	0	0.01	0	0.01	0.24	0.25	0.39	0.40
9725	0	0	0	0	0.49	0.49	0.64	0.64

Est. vol. total, Calls 23190 Puts 26960. Previous day's open int., Calls 343540 Puts 280211

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

Strike Price	Calls Sep	Calls Dec	Calls Mar	Puts Sep	Puts Dec	Puts Mar
9850	0.11	0.12	0.16	0.13	0.28	0.42
9875	0.02	0.04	0.06	0.29	0.45	0.59

Est. vol. total, Calls 200 Puts 0. Previous day's open int., Calls 3128 Puts 3265

RBS in talks to acquire Midshires

By Christopher Brown-Humes

Royal Bank of Scotland is in detailed talks to acquire Birmingham Midshires, the UK's fifth largest building society. A price tag of about £650m is being discussed.

A deal would provida Midshires' 1.2m members with an average windfall of more than £500 – much lower than recent pay-outs from converting societies such as Halifax and Woolwich.

If Midshires abandoned mntuality, it would be a blow to the sector just as it was celebrating brighter prospects after Nationwide members decisively voted against conversion to a bank. But it would give RBS some of the enhanced retail presence south of the border it has long coveted. Finalisation of the deal is believed to be some weeks away.

Intense speculation has surrounded Midshires for 18 months, leading to an influx of some 300,000 "carpetbaggers" in the last year. Earlier this week, the society suspended naw account openings. On Monday, it will launch a naw set of accounts, with identical interest rates, but they will not carry the membership rights necessary for a windfall.

Midshires has 115 branches in the Midlands, the south-west and north-west. It has assets of about £7.7bn and last year made profits of £70.7m, up 13 per cent on 1995.

Mr Mike Jackson, Midshires chief executive, said earlier this week it was "not for sale and no decision had been taken on a change in corporate form". Bnt the society has also said its adviser, JP Morgan, was exploring options, including possible flotation or sale. Many analysts believe it is too small to float and would prefer to be acquired by a listed company.

Midshires would hope that a deal with RBS would give it greater independence, permitting brand retention and avoiding the heavy branch closures that an agreement with an English competitor might entail. Such an arrangement would be similar to Bank of Ireland's £600m purchase of Bristol & West.

RBS has made no secret of its ambitions to gain more customers through a variety of distribution channels, including Direct Line and its personal finance link with Tesco.

The bulk of its branch network and customer base is north of the border. It might see the purchase as a platform for further acquisitions to achieve a nationwide presence.

Midshires would only confirm that it talked to the bank about the launch of a joint credit card later this year. The bank would not comment.

Guinness and GrandMet defend plan

By David Blackwell

Gninness and Grand Metropolitan yestarday launched a robust defence of their original May 12 plan to create a £24bn food and drink conglomerate.

Mr Bernard Arnault, the French businessman trying to derail the plan, had made all the running with a series of highly publicised moves, including resignation from the Guinness board on Monday. But analysts yesterday thought the two UK groups were firmly back on the front foot, the day after Mr Arnault arrived in the City to start a charm offensiva on institutional investors.

"They seem to have turned the public relations battle in their favour," said one analyst. "They have shot down a lot of the claims made by LVMH about added value." "They have come in hard and said the arithmetic does not work," said another. "The story was clear – they were not going to talk about demergers and were not prepared to pay a premium for Moët Hennessy."

Mr Arnault, chairman of LVMH, the French luxury goods group, is campaigning for a three-way drinks merger that inclndea LVMH'a Moët Hennessy. By reducing his stake in Guinness to 12.5 per cent, he has built up his GrandMet holding to more than 11 per cent, and is the biggest single shareholder in both groups.

Whether he will build his GrandMet stake further is subject to much speculation. If he were to go to 25 per cent he would be able single handedly to stop the scheme of arrangement under which Guinness and GrandMat shares will be swapped in order to create GMG brands.

"If we find that there are rocks in the road, we will drive round them," said Mr Philip Yea, finance director designate of GMG. This implied that the two groups would change the scheme of arrangement if necessary.

Any change would subject the new group to stamp duty of about £65m. That would probably be conaidered immaterial in the context of the overall benefits to be had – although other problems are likely to surface over a 25 per cent minority holding.

Institutional investors do not want to see the situation get too confrontational. The more conservative are particularly keen not to lose the gains in both shares since the merger was announced – although LVMH itself would be the biggest loser.

However, Mr Arnault is not withont support. One institutional investor yesterday said GMG would end up with "a rag-bag collection of consumer interests" that would dilute the value of the Guinness brands. "I would be prepared to tolerate that only if Moët Hennessy was brought into the picture," said the investor.

Pendragon pays Lex £44m for 17 franchises

By Christopher Price

The consolidation of UK car dealerships moved up a gear yesterday when Pendragon agreed to buy 17 franchises from Lex Service for £44m ($73.5m).

The deal will make Pendragon the largest car dealer in the UK and marks a significant move by the company into the "volume", or maas-market, car sector.

Pendragon will fund the deal through a £56m 4-for-7 rights issue at 265p. Shares in the group fell 35p yesterday to 313½p.

The company also announced expansion agreements with Ford and Vauxhall, which between them own 14 of the franchises. This would require £52m of investment over the next three years.

Mr Trevor Finn, chief executive, said the creation of "major market areas" echoed the development of car retailing in the US.

"Competition between the same brands in the same areas destroys profits. The manufacturers are at last realising that," Mr Finn said.

The National Franchised Dealers Association said intense competition had led to the number of franchisees falling by about 10 per cent to 6,000 in the past year.

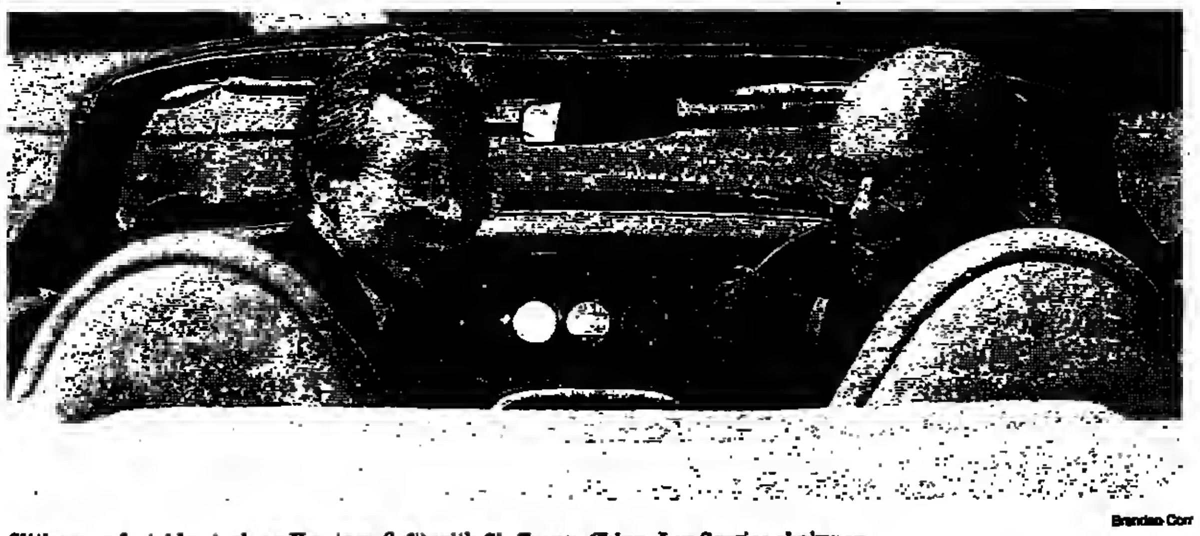
The 17 franchises made profits of £3.4m, down 35 per cent, on sales of £349m in 1996. Mr Finn said Pendragon'a similar set-np with Volvo had led to improved margins through economies of scale.

Mr Andrew Harrison, chief executive of Lex, said the company was leaving volume car sales because of poor returns.

He believed tha market, where new car salea rose just 2 per cent last year, would continue to struggle against the luxury, or specialist, market. Lex would now concentrate on its specialist dealerships and leasing, and diversify into other areas such as servicing. Shares in Lex rose 2½p yesterday to 403p.

The rights issue is being underwritten by Merrill Lynch, which was yesterday appointed atockbroker to Pendragon after BZW was replaced.

See Lex



Brendan Corr

Sitting comfortably: Andrew Harrison (left) with Sir Trevor Chinn, Lex Service chairman

Volume switch for car dealers

By Christopher Price

Both Pendragon and Lex Servica prodnced firm increases in profits yesterday as the motor dealership groups announced their divergent strategies.

Pendragon, whicb is adding Lex'a voluma business to its luxury car dealerships, increased half-year pre-tax profits by 14 per cent to £6.66m.

Sales rose 29 per cent to £369m.

Lex increased pre-tax profits by 10 per cent to £30.5m on turnover slightly down at £777.3m (£812m).

In the reverse to Pendragon, the group is concentrating on distribntion of higher-margin specialist brands.

The fall in sales reflected Lex's disposal of some other volume franchises, a strategy embarked upon a year ago with the appointment of Mr Andrew Harrison as chief executive.

Operating profits from the retail business fell 20 per cent to £8.9m.

In contrast, profits from vehicle leasing rose 17 per cent to £10.5m. There was also a 14 per cent increase, to £6.6m, from the forklift truck division.

The group's Hyundai dealership almost trebled profits to £3.6m.

Earnings per share rose 12 per cent to 19.1p. The interim dividend is increased 6 per cent to 6.8p.

Pendragon's figures were lifted by strong performances from its Jaguar and Volvo franchises.

In addition, sales of Fiat cars, where the group has the greater London franchise, were also firm.

Earnings per share increased 16 per cent to 11.8p.

● COMMENT

Pendragon's repntation for sure-footedness looked a little shakey after yesterday'a deal. True, the development of large market areas has worked well for dealers in the US and for its UK rival Reg Vardy. Pendragon has taken the canny step of agreeing large area monopolies with the manufacturers supplying its naw franchises. But this cannot disguise the fact that sales in the volume car market are soggy and industry forecasts hardly encouraging. Pendragon will rightly argue that it should be able to extract higher margins from the Lex purchase through its monopoly position, tighter controls and economies of scale. But until the volume car market itself shows signs of recovery, the benefits of the deal are likely to be overshadowed. Pre-tax profit forecasts of about £15.5m (£12.6m) pnt the shares on a prospective p/e of some 13 times. This is a 15 per cent discount to tha market and looks about right.

The deal holds ont brighter prospects for Lex. It is left to concentrate on higher margin businesses, whila the development of newer businesses, such as repairs and servicing, looks promising. Proceeds from the deal, together with the sale of part of its stake in a Taiwanese venture, will wipe out debts over the next year. With the remainder of the Taiwanese investment valued at £120m, speculation about a share buy-back or special dividend appears justified. Pre-tax profit forecasts of £58m put the shares on a forward p/e of about 10. While the challenge for Lex is to pnt together a consistent run of results, the rating looks somewhat harsh.

Railtrack and Jarvis settle pricing dispute

By Haig Simonian

Railtrack and Jarvis, the construction group which has taken on extensive track maintainance functions, said they had resolved their differences over pricing with within hours of their row becoming public.

Railtrack said Jarvis had agreed to revise its estimates for certain track maintainance work after Railtrack argned its prices were up to six times higher than those of other contractors for similar work. Railtrack had threatened to suspend Jarvis from bidding from work on other building projects unless it cut its prices.

The companies said yesterday that "a process for resolution of this issue has been agreed" and that they looked forward to "continuing their constructive relationship".

BI buys Cortworth in £93.6m deal

By Robert Anderson

Cortworth, the UK specialist engineering company bought by its management from Williams in 1993 for £40.3m ($67.3m), is to be sold to BI Group for £93.6m.

Cortworth's management, led by Mr Bill McMurray, chief executive and Mr Graham Wagster, finance director, owns just over 20 per cent of the equity, and will receive about £19m.

BI, a specialised engineering snbsidiary of tbe Knwaiti-liated National Industries Corporation, is offering 196p a share in cash, a 25.6 per cent premium to Thursday's closing price. There is a loan note alternative.

The sale price is well above Cortworth's £71.6m value when floated in 1995, but about its market peak in April 1996.

Analysts said tha price bad weakened partly because investors had been disappointed that acquisitions had not been mada. The gronp bas underperformed the engineering sector over the past year.

In 1996 Cortworth made pre-tax profits of £10.1m on turnover of £67.2m. Its year-end net assets were £25.5m.

The acquistion is BI's first since it was taken over by NIC for £96.3m last year.

NEWS DIGEST

R Dutch/Shell in electricity deal

Royal Dutch/Shell has signed an agreement with Bechtel, the US engineering concern, to negotiate the purchase of a 50 per cent stake in International Generating Company, Bechtel'a power generation subsidiary.

The move is part of Shell's plan to expand its interests in electricity over the next five years. Its Shell International Gas offshoot is aiming to complete negotiations by the end of September. Shell declined to comment on the possible price of the acquisition.

Tha company already has power projects in Peru, Namibia and the Philippines.

International Generating is a leading global developer of power projects. ft has four plants under construction in the UK, Mexico, Colombia and the Philippines, with a proposed combined outpnt of 2,145MW.

In addition, the company has seven contracts or mandates for developing an extra 4,275MW of capacity and is also pursuing a further 20 schemes with a total capacity of 10,000MW.

Stefan Wagstyl

Britannia bids for BB&EA

As foreshadowed this week, Britannia Group yesterday launched an agreed offer for British Building & Engineering Appliances, its rival construction services company.

The bid of 75p cash a share values Essex-based BB&EA at about £8.4m. Britannia already bolds or has acceptances representing 55.25 per cent of its target's equity.

Britannia, cash-rich following the £10m sale of its housebuilding division in July last year, has been seeking a purchase to complement existing activities. Mr Christopher Powell, chairman, said that as part of a larger group, BB&EA would be in a better position to maximise the value of its businesses, which would be reviewed at an early stage to assess their potential.

BB&EA has swung in and out of profit since being demerged in 1992 from BM Group, the engineer now known as Brunel Holdings. It reported a modest pre-tax profit of £24,000 on sales of £18.2m for the six months to December 31.

BB&EA shares firmed 2p to 72½p, while Britannia hardened 2½p to 32½p. Henry Ansbacher is acting for Britannia; BB&EA is advised by Albert E Sharp.

● Brunel yesterday announced the sala of its Titman Tip Tools subsidiary and its German offshoot to Howle Holdings for £2.15m cash, including repayment of inter-company debt. Brunel said the deal completed its disposal programme, begun some 18 months ago. Howle is funding its move through a placing and open offer of 8.29m shares on a 3-for-7 basis at 26p.

Graham Deller

Avocet placing to raise £5.4m

Avocet Mining has conditionally allotted 3.26m ordinary shares by way of a private placing at 165p to raise about £5.4m.

The proceeds of the placing, which involves shares representing less than 10 per cent of the existing capital, will be used to repay certain outstanding loans and provide working capital.

The directors said the group's working capital forecasts assumed a rise in tungsten prices and a "successful rescheduling" of a number of loan repayments. Failing either of these, a further fundraising exercise or "alternative sources" of working capital might be required.

Avocet's shares fell 8p to 168½p yesterday.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Hearts	Yr to May 31	4.92	(4.34)	1.54L	(2L)	25.5L	(34.1L)	-	-	-	-	-
Lex Service	6 mths to June 30	777.3	(812.1)	30.5	(27.7)	19.1	(17)	6.8	Sept 4	6.4	-	16
Pendragon	6 mths to June 30	369.1	(285.5)	6.66	(5.85)	11.8	(10.2)	3.6	Aug 29	3.3	-	9.9

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Baring Tribune ★	6 mths to June 30	525	(457.5)	2.87	(2.2)	5.6	(4.29)	2.2	Sept 15	2	-	7.6
City of Oxford	3 mths to June 30	-	(-)	-	(-)	-	(-)	1.3☆	Aug 29	1.3	-	5.6
Edinburgh UK Track	6 mths to June 30	195.31	(165.83)	1.53	(1.44)	3.02	(2.97)	2.2	Aug 29	2.2	-	5.3
Geared Income	3 mths to June 30	44.25	(-)	0.875	(1.05)	0.74†	(1.84)	0.875⁑	Aug 29	1.75	-	7.2
Henderson Electric	Yr to May 31	302.7	(276.8)	3.89	(4.19)	4.3	(4.53)	2	Sept 26	1.95	3.8	3.65
Ivory & Sime Isis	6 mths to June 30	193.1	(198.6)	0.02	(0.167)	0.09	(0.72)	-	-	-	-	-
Scottish National	9 mths to June 30	110.3	(80.4)	11.3	(10.3)	7.1	(6.5)	2♦	Oct 7	2	-	8.6
Templeton Emerging	Yr to Apr 30	154.77	(137.86)	7.44	(5.8)	1.71	(1.44)	1.1	Aug 27	1	1.1	1

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♦After exceptional charge. ♥After exceptional credit. †On increased capital. ★Comparatives restated. ☆ Excludes special 1.2p. ⁑Amount payable to both ordinary and income shareholders under new capital structure. ♦Third interim; makes 5.6p to date.

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Sharp rise in price of aluminium forecast

CROSSWORD

FT MANAGED FUNDS SERVICE

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OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

BERMUDA (REGULATED)(**)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

FT MANAGED FUNDS SERVICE

Offshore Funds and Insurances

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BAII Asset Management Ltd

10 Piccadilly, London W1V 0EE 0171 734 3700

	Selling Price	+or-	Yield Gr's
Intermarket NAV Jul 15 F	$561.32	-1.10	-
Interportfolio Fund			
Convertible (US$) Jun 30	$791.08	-	-
Convertible (FFr) Jun 30 F	FFr3227.40	-	-
Comfort (US$)	$520.98	-	-

Bank Von Ernst & Cie AG

GT Global

	Selling Price	Buying Price	+or-	Yield Gr's
GT Europe A	$82.32	87.70	+1.10	0.00
GT Europe A	$49.56	52.16	+0.70	0.00
GT Europe B	$83.53		+1.10	0.00
GT Europe B	$49.68		+0.71	0.00
GT US Small Cos A	$23.04	24.25	+0.15	0.00
GT US Small Cos B	$38.84		+0.26	-
GT US Small Cos B	$23.10		+0.15	0.00

HSBC Investment Funds Luxembourg SA (u)

HSBC Global Investment Funds

International and Regional Funds

	Selling Price	Buying Price	+or-	Yield Gr's
Asian Equity	$32.58	34.29	+0.35	-
International Strategic Equity	$19.31	20.47	+0.19	-
North American Equity	$21.52	22.72	+0.46	0.00
Pan-European Equity	$18.86	10.01	+0.25	-

Market Specific

Morgan Stanley Sicav - Contd.

	Selling Price
US Value Equity B C	
US Value Equity I	$17.54
Latin America A	$15.73
Latin America I	$15.78
Gold B	$10.18
Gold I	$8.30
US Real Estate Secs A C	$15.56
US Real Estate Sec B	$15.31
US Real Estate Secs I	$15.41

Nikko Global Umbrella Fund

Merrill Lynch Asset Management - Contd.

	Selling Price	+or-	Yield Gross
Class C	$22.78	+0.10	-
Class B	$21.30	+0.08	-
Class D	$12.25	+0.01	-
Class B	$12.00	+0.00	-
Latin American Portfolio			
Class C	$17.92	[illegible]	-
Class B	$17.08	[illegible]	-
Class D	$10.85	[illegible]	-
Class B	$10.19	[illegible]	-

TCW Luxembourg Funds

	Selling Price
US Core Equities	$13.73
US Small Cap Growth	$11.07
US Large Cap Growth	$12.52
US Small Cap Equities	$9.97

Target International Ltd

Templeton Emerging Asia

Eurolife Assurance Group

Finexco International Ltd

LUXEMBOURG (REGULATED)(**)

ACM Offshore Funds

OFFSHORE INSURANCES

Aberdeen International Ltd

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FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

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PanEuroLife societe anonyme

Premier Life

Professional Investment Consultants

OTHER OFFSHORE FUNDS

MANAGED FUNDS NOTES

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	+ or -	52 week high	52 week low	Mkt Cap£m	Yld Gr's	P/E
Allied Domecq	[illegible]	454xd	+2	482	407½	4,717	6.0	13.6
Balmor (HP)	[illegible]	482½	—	628	447½	239.9	4.1	Φ
Burn St Dist	[illegible]	49		162	42	28.7	9.4	11.2
Glenmorangie A	[illegible]	897½	-10	1040	740	127.5	1.2	[illegible]
B		1075xd	—	1140	955	43.6	0.8	33.1
Grand Met	[illegible]	617	-5	631	422	13,012	3.0	19.8
Guinness	[illegible]	591½	-6½	627	434	11,203	3.2	16.9
Highland	[illegible]	328½	—	380	327½	438.2	3.2	15.4
5½pc Cnv Bds		90½	—	107½	98	44.2	9.2	—
Kirin Y		571¼	-13	789	466¼	8,013	1.1	—
Matthew Clark	[illegible]	248½	-4	700	235	218.2	13.0	7.2
Merrydown	[illegible]	93½xd		123½	92½	8.82	0.1	Φ
Seagram C$		2234	-½	2293	2203	6,339	1.2	—

BANKS, RETAIL

	Notes	Price	+ or -	52 week high	52 week low	Mkt Cap£m	Yld Gr's	P/E
ABN Amro Fl		3101½	[illegible]	[illegible]	[illegible]	14,849	2.2	Φ
ANZ A$		453¼	+9½	455¼	[illegible]	6,768	4.2	Φ
Abbey National		821½	-15	871	550	11,588	4.0	14.5
Alliance & Leicester		600½	[illegible]	636	[illegible]	3,484	3.4	14.7
Allied Irish £		617	-13½	525	336	4,373	[illegible]	14.7
Anglo Irish £		83	-1	86	[illegible]	228.6	4.8	12.3
Asahi Y		467¼	[illegible]	747¼	335½	10,851	0.8	—
Banco Bil Viz Pta		2181½	[illegible]	2317	2213	10,946	1.6	—
Banco Sant Pta		318½	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	—
Bk Ireland £		732½	+9	742	436	8,707	2.2	13.8
Bank Scotland		440½	-11	445	227½	5,281	2.8	Φ
9¼pc Pf		128	+¼	135	108½	292.0	2.3	13.4
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

BREWERIES, PUBS & REST

[illegible]

BUILDING & CONSTRUCTION

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

CHEMICALS - Cont.

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ENGINEERING

[illegible]

ENGINEERING - Cont.

[illegible]

ENGINEERING, VEHICLES

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

EXTRACTIVE INDUSTRIES - Cont.

[illegible]

FOOD PRODUCERS

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

HEALTH CARE - Cont.

[illegible]

HOUSEHOLD GOODS

[illegible]

INSURANCE

[illegible]

INVESTMENT TRUSTS

Approved by the Inland Revenue

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

INV TRUSTS SPLIT CAPITAL

Approved by the Inland Revenue

[illegible]

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LONDON SHARE SERVICE

OTHER INVESTMENT TRUSTS

MEDIA - Cont.

PROPERTY

RETAILERS, GENERAL - Cont.

TOBACCO

AIM - Cont.

TRANSPORT

SUPPORT SERVICES

OIL EXPLORATION & PRODUCTION

INVESTMENT COMPANIES

WATER

AMERICANS

OIL, INTEGRATED

AIM

OTHER FINANCIAL

CANADIANS

LEISURE & HOTELS

SOUTH AFRICANS

	Notes	Price	+ or -	52 week high	52 week low	Mkt CapEm	Yld Gr's	P/E
Anglo Am Ind R		£26¼		*£28¼	£20¼	2,011	2.7	φ
Barlow	‡†	£7¾	-⅜	£7¾	£5¼	1,478	2.0	15.4
Gold Flds Prop R	†	182½	+1½	188½	130	18.7	4.6	14.4
SA Brews		£18⅜	-⅜	£19⅜	£13¾	5,395	2.0	φ
Standard Bank		£28⅜	+⅜	£30	£21	3,460	1.8	φ
Tiger Oats	†	1010	-30	1100	790	1,526	1.8	19.8
Tongaat-Hulett		732½	-2	790½	676¼	711.1	2.5	φ

PROPERTY - Cont.

SUPPORT SERVICES - Cont.

PAPER, PACKAGING & PRINTING

RETAILERS, FOOD

TELECOMMUNICATIONS

LIFE ASSURANCE

MEDIA

RETAILERS, GENERAL

TEXTILES & APPAREL

PHARMACEUTICALS

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid-prices over a rolling 52 week period.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- * Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- φ Figures or report awaited
- ♥ Rule 21.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below
- †† Rule 4.2(a) Irish incorporated non-listed companies.
- ╫ Priced at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other offical estimates.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
r Dividend yield includes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
z Dividend yield includes a special payment

F Yield based on prospectus or other offical estimates for 1996-97.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other offical estimates for 1997
K Yield based on prospectus or other offical estimates for 1996
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other offical estimates for 1997-98.
R Dividend is paid in whole or part as a

FID (Foreign Income Dividend)
Θ Forecast annualised yield, p/e based on prospectus or other offical estimates.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xd ex capital distribution.

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LONDON STOCK EXCHANGE

Footsie's rise checked by retail sales surge

MARKET REPORT

By Peter John

There was only one direction for London equities after dealers came in to work to face a new record high on Wall Street.

The Footsie kicked in yesterday morning with an opening rise of 55.4 points and moved forward smartly to show a gain of almost 85 points by mid-morning.

The Dow Jones Industrial Average had jumped 154.9 points on Tuesday wheo Mr Alan Greenspan, the US Federal Reserve chairman, gave a speech reinforcing the view of a "goldilocks economy".

He underlined why the US was seeing robust growth with low inflation and why the situation might continue for some time. He said "producer prices have fallen in each of the past six months" but "economic activity is on the rise ... in virtually every geographic region and community of the nation".

Initially, therefore, there was scant reaction to the latest survey from the British Chambers of Commerce (BCC), which pointed out that exports for manufacturing and service sector companies had fallen to their lowest levels for almost five years.

The report coincided with increased strength in the pound, which was standing at its highest level against the D-Mark since 1989.

And there was a concrete example of the sterling effect. Reuters, the news and financial information group, announced figures that showed interim profits down 3 per cent before the currency hit was stripped out but up 12 per cent afterwards.

In contrast, retail sales figures – driven by building society windfalls – came in well above the market's consensus and highlighted the growing chasm between the corporate winners and losers.

Mr Michael Saunders, UK economist for Salomon Brothers, said the Chambers of Commerce figures probably would not stop base rates rising again given the strength of consumer demand.

He suggested, however, that a weak picture painted by today's CBI industrial trends survey might at least damp some of the worst inflationary terrors.

Long-dated government bonds ignored the data, reacting instead to Mr Greenspan's comments and rising more than a point.

Derivatives traders did their best to cool the Footsie's rise by restraining the Footsie future contract to a small premium to the underlying cash market.

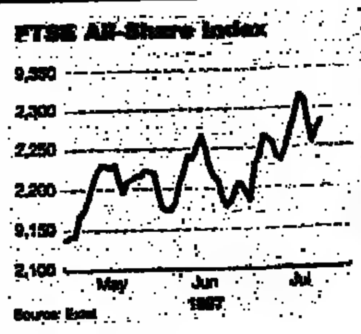
At the New York opening, the Dow shot up 73 points in the first 15 minutes of trading to send it comfortably through 8,100, providing some brief upward momentum for London.

By the afternoon, the impact of the day's economic data began to make itself felt. Footsie's rally ran out of steam and the rise was cut to a net gain of 27.8 at 4,874.5.

Mr Philip Wolstencroft, UK economist with Merrill Lynch, commented: "The market has looked at these figures and worked out that interest rates are going up."

The FTSE 250 closed 20 up at 4,481.8 and the SmallCap ended the day 1.6 better at 2,190.6. Overall market voluma was 867.5m shares by 6pm.

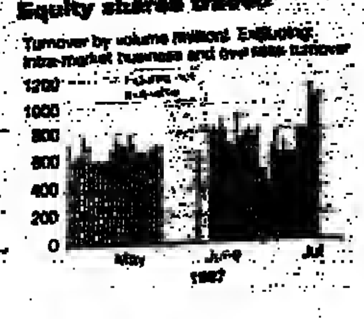
FTSE All-Share Index



Source: Datastream

Equity shares traded

Turnover by volume (millions). Excluding: intra-market business and overseas turnover



Indices and ratios

FTSE 100	4874.5	+27.8
FTSE 250	4481.8	+20.0
FTSE 350	2338.2	+12.8
FTSE All-Share	2282.67	+11.78
FTSE All-Share yield	3.40	3.41

FT 30	3088.0	+15.5
FTSE Non-Fins p/e	19.44	19.14
FTSE 100 Fut Sep	4895.0	+17.0
10 yr Gilt yield	7.00	7.07
Long gilt/equity yld ratio	2.06	2.07

Best performing sectors

1. Insurance .... +2.6
2. Chemicals .... +1.7
3. Food Producers .... +1.4
4. Water .... +1.4
5. Life Assurance .... +1.2

Worst performing sectors

1. Gas Distribution .... -2.0
2. Alcoholic Beverages .... -0.7
3. Building & Construction .... -0.2
4. Extractive Inds .... -0.2
5. Tobacco .... -0.1

Ofgas concerns hit BG

By Martin Brice and Joel Kibazo

BG was the most heavily traded stock in London with 41m shares changing hands as it fell 6½ to 241½p on fears of a deterioration in the company's relationship with Ofgas, the industry regulator.

Ofgas departed from the recommendations of the Monopolies and Mergers Commission when it published its detailed price control proposals for BG's Transco pipeline business. However, the dispute is not seen by analysts as on the same scale as previous spats.

Mr Steve Turner at HSBC James Capel said: "A cloud has emerged in what was expected to be a blue sky." However, he remains a firm buyer of the stock, seeing it as a genuinely cheap utility.

Mr Andrew Wright, at Merrill Lynch, said while there was no problem in purely financial terms, the proposals "raised the issue of regulatory uncertainty when it looked as if it had gone away".

The volume was the heaviest in BG since November when the shares rose from 138p to 169p after Ofgas and BG agreed proposals for controlling domestic gas prices.

The strength of the pound was again taking its toll among stocks exposed to overseas earnings. Reuters was down 11 at 598½p after the media group highlighted the issue in its interim profit statement.

The company said profit was down 3 per cent but up 12 per cent before the effect of currency. First-half profits came in at £333m, down from £342m and just under most forecasts.

Analysts took some small comfort in news of the £200m share buy-back. But the sum is substantially less than the original plan to return capital to shareholders.

NatWest Securities told clients before the results that a £700m buy-back would be needed to enhance earnings. Analysts were said to be downgrading full-year forecasts slightly, to just under £700m.

Elsewhere in currency-affected stocks, BICC was down 5 to 162½p, and Glywed International was off 7 to 202p.

Courtaulds shed 6½ to 291½p after it told the annual meeting that the translation of overseas earnings into the strong pound in the first quarter had "left profit before tax a little below" the same period last year. And British Steel eased a penny to 155¾p after the company cited the damaging effect of currency in a cautious AGM statement.

The bulls gained the upper hand in British Airways although UBS, the house broker, downgraded current-year profit expectations following a similar move by Merrill Lynch on Monday.

UBS cut its current-year profits forecast by a hefty £160m to a pre-disposals level of £580m and the following year's figure by £60m to a pre-disposals level of £790m. The broker cited strike costs, currency and disposals for the move.

Initially, news of the downgrade sent the shares south before the market appreciated that the forecast reduction came with a strong buy recommendation.

Also, there was bargain-hunting following Tuesday's sharp decline. BA closed 7 up 635p after trade of 14m.

United News and Media advanced 16 to 696p on a report that ITV companies might have to pay less for their licences if the Independent Television Commission cuts the sum of the fixed "cash bid" the broadcasters pay to the government. United is seen as the company most likely to benefit, as its Meridian, Anglia and HTV stations bid high for their licences.

Mr Neil Blackley at Merrill Lynch reckons the company will be about £40m better off in 1999, a boost of about 12 per cent to profits.

Carlton, which has high bidders in WestCountry and Carlton and a low bidder in Central, rose 8¼ to 482½p. Granada firmed 4½ to 767p and Yorkshire TV 12½ to £11.05.

BOC topped the list of risers in the Footsie as it advanced 69 to £11.41½ in brisk trade. The gain was driven by its plan to sell the Ohmeda health care business – which analysts said could raise up to £1bn – and focus on its gas divisions.

Analysts said the disposal would enhance earnings, as Ohmeda had been a thorn in BOC's side for some years.

Mr Lucas Herrmann at NatWest Securities said: "BOC has recognised it would be better off without that division, and the market has applauded that. The fundamentals of the gas business demand a re-rating of the stock."

Smiths Industries rose 18 to 756½p on news that the European Commission had cleared the Boeing-McDonnell Douglas merger. Smiths is a supplier to Boeing.

Some utility stocks continued to benefit from recent favourable brokers' notes, with Severn Trent up 23½ to 902½p and Scottish Power up 4½ to 448½p, also helped by a positive statement at its annual meeting.

Elsewhere, United Utilities rose 10 to 711½p as it recovered from the pounding on Monday when it said Mr Brian Staples, the chief executive, was to leave. NatWest Securities told clients the announcement represented "a watershed in the group's evolution".

Mr Robert Miller-Bakewell at the broker said the announcement contained "a thinly veiled profits warning" on current trading. He has moved his stance from "add" to "hold".

Buyers returned to the retail banking sector sending individual shares soaring and helping to boost the market as a whole.

Banking issues had retreated sharply over the past few days as dealers took the view that a sector which had strongly outperformed the overall market for most of this year was ripe for consolidation.

But such views were put on the back burner yesterday as bid talk returned, ignited by news of the merger between Bayerische Vereinsbank and Bayerische Hypo-Bank in Germany.

The best performers included Bank of Scotland, which gained 11 to 440½p. HSBC, in which the ordinaries appreciated 40 to £21.04½, and Standard Chartered 22 ahead at £10.01. Royal Bank of Scotland put on 5½ at 651p and Barclays 2½ at £12.78½.

However, some refused to join the party. National Westminster trailed 3 to 862p, while Lloyds TSB closed 5½ off at 667p.

Bargain-hunting helped BT recover from the slide that followed concerns about its merger with US group MCI. The shares gained 7 to 430p having traded 20m by the close.

The group is set to announce first-quarter figures at the end of this month.

FT 30 INDEX

	Jul 23	Jul 22	Jul 21	Jul 18	Jul 17	Yr ago	*High	*Low
FT 30	3088.0	3072.5	3061.5	3105.7	3128.1	2692.8	3128.1	2668.8
Ord. div. yield	3.55	3.58	3.60	3.54	3.51	4.21	4.22	3.50
P/E ratio net	18.22	18.08	17.96	18.75	18.93	15.92	18.98	15.80
P/E ratio nil	18.03	17.90	17.78	18.56	18.74	15.76	18.78	15.71

FT 30 since compilation: high 3128.1 16/07/97; low 49.4 26/06/40. Base Date: 1/7/35.

FT 30 hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
3101.6	3110.7	3118.4	3120.4	3109.8	3111.0	3114.6	3111.8	3086.3	3121.5	3084.0

	Jul 23	Jul 22	Jul 21	Jul 18	Jul 17	Yr ago
SEAQ bargains	48,298	46,531	49,055	54,850	58,220	26,488
Equity turnover (£m)†	-	NA	4404.9	4170.7	4382.0	1378.1
Equity bargains†	-	NA	61,365	49,682	68,449	29,132
Shares traded (ml)†	-	NA	1062.8	1058.9	1128.0	488.9

†Excluding intra-market and overseas turnover but including Crest turnover.

 *For 1997.

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	889	Total Highs	149	Total contracts	51,974
Total Falls	632	Total Lows	103	Calls	22,005
Same	1,556			Puts	29,969

Jul 23 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

FTSE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	4940.0	4887.0	+9.0	4969.0	4866.0	15184	[illegible]
Dec	5020.0	4950.0	+9.0	5020.0	5020.0	11	4981
Mar	-	4995.0	+15.0	-		0	101

FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	-	4525.0	-20.0	-		0	111

FTSE 100 INDEX OPTION (LIFFE) (*4887) £10 per full index point

	4700 C	4700 P	4750 C	4750 P	4800 C	4800 P	4850 C	4850 P	4900 C	4900 P	4950 C	4950 P	5000 C	5000 P	5050 C	5050 P
Aug	214½	42	178	55	141	69½	110½	91	82½	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	264	74	228½	88	196	107	162½	127	132½	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Oct	289½	90½	254½	106	225	136½	196	147	167	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nov	328	114½	298½	133½	266	152½	236	171½	204½	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec†	363½	119			303½	157½			240½	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Calls 4,912 Puts 15,328

EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

	4675 C	4675 P	4725 C	4725 P	4775 C	4775 P	4825 C	4825 P	4875 C	4875 P	4925 C	4925 P	4975 C	4975 P	5025 C	5025 P
Aug	228½	36½	190½	47½	164½	61	122	78½	96	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	278½	60	243	82	209	98½	178	117	148	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Oct	307	82	273	97	241	114	211½	134	184½	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec			346½	127½			282½	161		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar†			419	160½			359	192½		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Calls 8,903 Puts 6,910 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1997 High	1997 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
§	F.P.	85.5	139½	124½	Ashbourne	135½		W5.0	1.8	4.6	15.2
§100	F.P.	26.0	122½	109½	Cammell Laird	122½	+4	L3.8	2.1	3.9	11.8
§100	F.P.	31.8	109½	105½	†Citadel Holdings	108½		-	-	-	-
§260	F.P.	15.8	275	265	Dalcam	267½		L2.5	4.4	1.2	34.2
	F.P.	-	116	114	EMI B	115		Z2.75	-	3.1	-
·	F.P.	2.02	26	24	†Euro Mining Fin	25		-	-	-	-
§150	F.P.	226.5	202	162½	Galen Hldgs	196	+1½	L0.9	5.7	0.6	31.4
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

FTSE GOLD MINES INDEX

	Jul 22	% chg on day	Jul 21	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (31)	1378.46	-0.2	1382.57	1983.44	2.32	-	2074.91	1278.14
Regional Indices								
Africa (14)	1440.88	-1.7	1468.53	2703.47	5.45	23.44	2775.96	1324.06
Australasia (6)	1479.74	-2.0	1510.59	2261.97	3.56	17.10	2455.10	1338.19
North America (11)	1360.39	+0.6	1362.05	1741.21	1.03	99.07	1861.48	1244.23

 Figures in brackets show number of companies. Basis US Dollars. Base Value: 1000.00 31/12/92. † Partial. Latest prices were unavailable for this edition.

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	Jul 23	Day's chge%	Jul 22	Jul 21	Jul 18	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	4874.5	-0.6	4846.7	4805.7	4877.2	3668.8	3.34	2.02	18.50	90.17	2081.21
FTSE 250	4481.6	+0.4	4461.6	4464.1	4484.1	4182.0	3.70	1.61	20.92	94.63	1875.70
FTSE 250 ex IT	4478.0	+0.4	4459.7	4463.2	4481.6	4215.5	3.85	1.65	19.72	97.54	1879.61
FTSE 350	2338.2	+0.5	2325.4	2309.6	2339.5	1838.0	3.41	1.94	18.91	44.38	2039.72
FTSE 350 ex IT	2338.9	-0.5	2326.2	2310.2	2340.3	-	3.43	1.95	18.69	12.42	1046.47
FTSE 350 Higher Yield	2268.1	+0.5	2255.9	2238.9	2264.6	1770.4	4.61	1.77	15.37	53.70	1677.78
FTSE 350 Lower Yield	2412.9	+0.6	2399.5	2384.7	2418.2	1812.7	2.42	2.21	23.36	34.62	1721.30
FTSE SmallCap	2190.58	+0.1	2188.67	2188.49	2194.82	2088.65	3.22	1.75	22.20	41.15	1883.35
FTSE SmallCap ex IT	2149.32	+0.1	2151.33	2151.34	2156.00	2087.86	3.50	1.63	19.48	44.41	1844.29
FTSE All-Share	2282.67	+0.5	2270.91	2256.49	2284.14	1818.39	3.40	1.83	19.09	43.32	2021.12
FTSE All-Share ex IT	2282.98	+0.5	2271.40	2256.67	2284.69	-	3.44	1.94	18.72	12.40	1039.79

FTSE Actuaries Industry Sectors

	Jul 23	Day's chge%	Jul 22	Jul 21	Jul 18	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 MINERAL EXTRACTION(20)	4705.39	+0.7	4672.13	4650.59	4689.10	3469.15	3.24	2.01	18.18	65.78	2106.43
12 Extractive Industries(5)	4171.94	-0.2	4181.15	4191.86	4259.64	3976.58	3.77	2.38	13.90	104.80	1275.23
15 Oil, Integrated(3)	4961.11	+0.8	4920.27	4881.72	4925.90	3565.02	3.36	1.95	18.08	90.43	2283.26
16 Oil Exploration & Prod(12)	3788.14	+0.8	3759.91	3750.99	3790.24	2489.46	1.52	2.18	37.62	38.65	2321.29
20 GEN INDUSTRIALS(284)	1887.53	+0.7	1874.86	1871.75	1884.37	1964.29	4.25	1.89	15.60	44.15	1079.99
21 Building & Construction(35)	1340.34	-0.2	1343.37	1342.86	1347.29	1131.28	3.32	1.96	19.20	25.35	1166.12
22 Building Matls & Merchs(30)	1783.95	+0.3	1778.37	1770.82	1781.30	1853.91	4.52	2.82	9.81	41.89	942.91
23 Chemicals(26)	2496.52	+1.7	2455.27	2450.92	2475.95	2376.78	4.22	1.48	20.00	56.84	1243.23
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Hourly movements

[illegible]

FTSE INTERNATIONAL

TRADING VOLUME

Major Stocks Yesterday

[illegible]

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Jul 23 / Sch)

BELGIUM/LUXEMBOURG (Jul 23 / Frs.)

CZECH REP (Jul 23 / Koruna)

DENMARK (Jul 23 / Kr)

FINLAND (Jul 23 / Mka)

FRANCE (Jul 23 / Frs.)

GERMANY (Jul 23 / Dm.)

GREECE (Jul 23 / Drachma)

ITALY (Jul 23 / Lira)

NETHERLANDS (Jul 23 / Fls.)

NORWAY (Jul 23 / Kroner)

POLAND (Jul 23 / Zloty)

PORTUGAL (Jul 23 / Escudo)

SPAIN (Jul 23 / Pts.)

SWEDEN (Jul 23 / Kronor)

SWITZERLAND (Jul 23 / Frs.)

TURKEY (Jul 23 / Tk.Lira)

PACIFIC

JAPAN (Jul 23 / Yen)

HONG KONG (Jul 23 / H.K.$)

INDONESIA (Jul 23 / Rupiah)

MALAYSIA (Jul 23 / MYR)

NEW ZEALAND (Jul 23 / NZ $)

SINGAPORE (Jul 23 / S$)

AUSTRALIA (Jul 23 / Aust$)

SOUTH KOREA (Jul 23 / Won)

TAIWAN (Jul 23 / TW $)

THAILAND (Jul 23 / Baht)

AFRICA

SOUTH AFRICA (Jul 23 / Rand)

NORTH AMERICA

CANADA

TORONTO (Jul 23 / Can $)

4 pm close

MONTREAL (Jul 23 / Can $)

4 pm close

INDICES

	Jul 23	Jul 22	Jul 21	1997 High	1997 Low
Argentina					
General(29/12/77)	(u)	22933.65	22347.29	23654.12 11/7	0.00 9/7
Australia					
All Ordinaries(1/1/80)	2683.4	2656.4	2653.4	2749.80 2/7	2362.20 1/4
All Mining(1/1/80)	843.5	845.6	849.0	987.10 24/2	831.10 8/7
Austria					
Credit Aktien(30/12/84)	453.16	443.90	443.15	453.16 23/7	374.40 9/1
Traded Index(2/1/91)	1452.78	1408.44	1400.24	1452.78 23/7	1130.22 9/1
Belgium					
BEL20(1/1/91)	2601.56	2539.52	(c)	2601.58 23/7	1871.05 2/1
Brazil					
Bovespa(29/12/83)	(u)	12235.0	11282.0	13617.00 8/7	6855.50 2/1
Canada					
Metals Minls♦(1975)	(u)	5095.58	5049.82	5891.75 10/3	4945.66 11/4
Composite♦(1975)	(u)	6714.25†	6647.40	6755.10 17/7	5579.30 14/4
Portfolio§§(4/1/83)	(u)	3383.61	3344.00	3432.27 16/7	2846.02 11/4
Chile					
IGPA Gen♥(31/12/80)	(u)	5635.49	5603.84	5668.71 4/7	4912.42 2/1
Denmark					
CopenhagenSE(3/1/83)	652.29	644.04	641.10	658.29 17/7	470.14 2/1
Finland					
HEX General(28/12/90)	3489.10	3431.30	3409.83	3532.87 17/7	2483.28 2/1
France					
SBF 250(31/12/90)	1853.40	1909.96	1884.77	1853.40 23/7	1533.19 2/1
CAC 40(31/12/87)	3003.53	2921.15	2874.12	3003.53 23/7	2255.97 2/1
Germany					
FAZ Aktien(31/12/58)	1467.25	1410.45	1385.46	1467.25 23/7	988.21 2/1
Commerzbank(1/12/53)	4294.90	4194.20	4070.2	4294.90 23/7	2875.80 2/1
DAX(30/12/87)	4406.09	4230.42	4108.40	4406.09 23/7	2848.77 2/1
Greece					
Athens SE(31/12/80)	1543.23	1535.81	1535.69	1727.70 23/5	954.54 2/1
Hong Kong					
Hang Seng(31/7/64)	15738.81	15446.78	15536.30	15738.81 23/7	12055.17 3/4
India					
BSE Sens.(1979)	4251.13	4186.29	4154.28	4404.68 9/7	3225.24 2/1
Indonesia					
Jakarta Comp.(10/8/82)	718.19	711.44	712.40	740.83 8/7	631.27 15/4
Ireland					
ISEQ Overall(4/1/88)	3629.05	3584.29	3546.19	3629.05 23/7	2725.87 2/1
Italy					
Banca Comm Ital(1972)	(u)	932.26	910.85	932.26 22/7	642.55 2/1
MIB General(2/1/97)	1442.0	1401.0	1369.0	1442.00 23/7	981.00 2/1
Japan					
Nikkei 225(16/5/49)	20130.51	20157.02	(c)	20681.07 18/6	17303.65 10/1
Nikkei 300(1/10/82)	297.98	298.09	(c)	302.73 17/7	251.04 27/1
Japan					
Topix(4/1/68)	1529.63	1531.60	(c)	1560.28 26/6	1320.82 10/4
2nd Section(4/1/68)	1791.05	1769.32	(c)	1848.28 30/6	1516.80 15/4
Malaysia					
KLSE Comp.(4/4/86)	1034.07	1018.01	1022.67	1271.57 25/2	1001.55 18/7
Mexico					
IPC(Nov 1978)	(u)	4652.10	4590.22	4662.38 10/7	3358.46 2/1
Netherland					
CBS TtlRtnGen(End 83)	1152.7	1123.7	1091.1	1152.70 23/7	730.80 2/1
CBS All ShrEnd 83)	666.0	649.3	630.5	666.00 23/7	429.80 2/1
New Zealand					
Cap. 40(1/7/86)	2464.97	2453.82	2459.28	2526.85 4/7	2297.48 1/4
Norway					
Oslo SE(Ind)(2/1/83)	2116.74	2083.25	2067.13	2121.54 16/7	1639.03 2/1
Philippines					
Manila Comp(2/1/85)	2636.97	2656.73	2648.34	3447.90 3/2	2489.38 20/5
Portugal					
BVL 30(4/1/93)	3396.58	3354.44	3336.82	3491.10 9/7	2165.57 2/1
Singapore					
SES All-S'pore(2/4/75)	500.82	497.54	495.77	573.03 17/2	479.94 29/4
South Africa					
JSE Gold(28/9/78)	982.4♥	993.2	1008.2	1598.19 27/2	903.90 7/7
JSE Ind.(28/9/78)	9032.3♥	8984.9	8979.7	9032.30 23/7	7859.58 2/1
South Korea					
KoreaCompEx**(4/1/80)	730.58	725.98	740.93	792.29 17/6	611.05 7/1
Spain					
Madrid SE(30/12/85)	612.76	613.18	597.33	628.15 7/7	434.54 2/1
Sweden					
AffarsvardeGen(1/2/37)	3212.0	3178.6	3126.9	3222.20 19/7	2378.50 2/1
Switzerland					
SMI Index(1/7/88)	5869.9	5677.1	5820.5	6012.60 8/7	3822.90 7/1
SPI General(1/6/87)	3708.58	3608.20	3572.56	3788.79 8/7	2506.22 6/1
Taiwan					
WeightedPr.**(30/6/66)	9381.06	9550.46	9833.77	9833.77 21/7	6844.75 6/1
Thailand					
Bangkok SET(30/4/75)	631.38	650.78	(c)	858.97 22/1	484.77 19/6
Turkey					
IMKB Nat 100(1986)	1919.00	1853.00	1855.00	2043.00 14/7	905.80 2/1
WORLD					
MS Capital Intl(1/1/70)	976.5*	970.4	957.3	978.80 18/7	794.80 14/4
CROSS-BORDER					
Eurotrack 100(26/10/90)	2774.62	2679.77	2643.10	2774.62 23/7	1863.80 2/1
FTSE E 100(26/6/90)	2315.04	2268.39	2221.38	2315.04 23/7	1582.80 2/1
HSBC JC Drgn(31/12/88)	(u)	421.29	423.95	428.48 20/1	381.88 29/4
ING Bmgs Emrg(7/1/92)	(u)	185.76	186.41	189.81 9/7	159.74 2/1

INDEX FUTURES

	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
■ CAC-40 (MATIF/MONEP) (200 x Index)							
Jul	3000.0	3011.0	+80.0	3036.0	2990.0	21,889	27,626
Aug	3016.5	3019.5	+80.0	3038.0	3002.0	1,757	4,930
■ DAX							
Sep	4430.0	4420.0	+81.50	4464.0	4383.0	29,179	93,137
Dec	4459.0	4453.0	+74.50	4483.5	4424.0	67	2,301
■ OMX							
Jul	2623.00	2602.00	+22.00	2638.00	2600.75	8,551	16,681
Aug	2633.00	2610.50	+15.50	2647.50	2610.25	6,298	11,421
■ SOFFEX							
Aug	5765.0	5878.0	+209.0	5880.0	5765.0	7,489	20,399

** Sat July 19: Taiwan Weighted Price 9749.30; Korea Comp Ex 748.15. Base values of all indices are 100 except: Australia All Ord and Mining – 500; Austria Traded, BEL20, HEX Gen., MIB Gen., BVL30, SBF250, CAC40, SPI, Euro Top-100, ISEQ Overall, Toronto Comp./Metals & Mins, DAX – all 1,000; SMI – 1500; JSE Gold – 255.7, JSE 28 Ind – 264.3; IMKB Nat 100 – 1; NYSE All Common – 50; Standard & Poor's – 10 and Amex Comp – 550. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. † IBIS/DAX after-hours index: Jul 23 – 4384.82 +87.18 ¥ Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♠ The DJ Ind. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

US INDICES

Dow Jones	Jul 22	Jul 21	Jul 18	1997 High	1997 Low	Since compilation High	Since compilation Low
Industrials	8061.65	7906.72	7890.46	8061.65 (22/7)	6391.69 (11/4)	8061.65 (22/7/97)	41.22 (8/7/32)
Home Bonds	103.99	104.13	104.17	104.17 (18/7)	101.09 (14/4)	109.77 (18/10/93)	54.99 (1/10/81)
Transport	2893.65	2827.33	2836.07	2894.10 (16/7)	2222.07 (2/1)	2894.10 (16/7/97)	13.23 (8/7/32)
Utilities	232.38	229.81	230.58	240.85 (22/1)	209.47 (25/4)	256.46 (31/8/93)	10.53 (8/7/32)

DJ Ind. Day's high 8088.93 (7951.51) Low 7870.72 (7783.85) (Theoretical♠)
Day's high 8068.61 (7919.86) Low 7905.02 (7840.06) (Actual♠)

Standard and Poors	Jul 22	Jul 21	Jul 18	1997 High	1997 Low	Since compilation High	Since compilation Low
Composite‡	933.98	912.94	915.30	936.59 (16/7)	737.01 (2/1)	936.59 (16/7/97)	4.40 (1/6/32)
Industrials♥	1103.27	1078.04	1081.45	1106.62 (16/7)	865.42 (11/4)	1106.62 (16/7/97)	3.52 (30/6/32)
Financial	105.30	102.97	102.84	105.75 (3/7)	80.75 (2/1)	105.75 (3/7/97)	7.15 (4/9/74)
NYSE Comp.	483.89	474.90	475.97	485.24 (16/7)	389.47 (11/4)	485.24 (16/7/97)	4.64 (25/4/42)
Amex Comp.	634.20	630.40	633.59	638.03 (16/7)	541.20 (28/4)	638.03 (16/7/97)	524.20 (18/7/95)
NASDAQ Comp	1583.86	1538.24	1547.89	1580.83 (16/7)	1201.00 (2/4)	1580.83 (16/7/97)	54.87 (3/10/74)

■ RATIOS

	Jul 18	Jul 11	Jul 3	Year ago
Dow Jones Ind. Div. Yield	1.64	1.63	1.63	2.30
	Jul 16	Jul 9	Jul 2	Year ago
S & P Ind. Div. yield	1.50	1.55	1.58	2.32
S & P Ind. P/E ratio	25.78	24.91	24.75	18.63

■ NEW YORK ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Change on day
Ph Morris	9,908,000	42⅝	+2
IBM	9,146,200	103⅞	-⅛
Pepsico	7,568,800	38¼	+2⅛
AT&T	7,086,200	35⅞	+1½
Boeing	6,106,900	58½	+2½
Kimberley-C	5,778,900	49¾	+1⅞
Chrysler	5,771,600	35⅞	+1
Columbia/HCA	5,700,700	33¾	+⅝
Tel Brasil	5,196,700	142⅞	+12½
Motorola	4,973,300	80¾	+1¼

■ TRADING ACTIVITY

● Volume (million)	Jul 22	Jul 21	Jul 18
New York SE	584.012	452.448	585.520
Amex	27.386	23.847	26.074
NASDAQ	660.899	546.687	679.603
NYSE			
Issues Traded	3,427	3,389	3,398
Rises	2,093	952	863
Falls	828	1,922	2,034
Unchanged	516	515	501
New Highs	264	120	171
New Lows	18	27	19

	Open	Latest	Change	High	Low	Est. vol.	Open int.
■ S&P 500							
Sep	942.35	944.50	+2.25	945.45	942.30	68,912	176,140
Dec	–	952.35	–	–	931.25	348	5,387

	Open	Sett price	Change	High	Low	Est. vol.	Open Int.
■ Nikkei 225							
Sep	20300.0	20130.0	-60.0	20350.0	20020.0	18,888	169,597

Open Interest figures for previous day.

■ TOKYO - MOST ACTIVE STOCKS: Wednesday, July 23, 1997

	Stocks Traded	Closing Prices	Change on day
Sakura Bank	5.1m	824	-27
Nippon Steel Cp	5.0m	335	-5
LTCB	5.0m	523	-7
NKK Corp	3.6m	221	+2
Sumitomo Mtl Ind	3.6m	291	+2
Fujitsu	3.6m	1670	+10
Mitsubishi Est	3.6m	1700	+50
Matsushita E Wks	3.3m	1410	+30
Hitachi	3.2m	1290	+10
NEC Corp	3.0m	1630	-10

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4 pm close July 23

NEW YORK STOCK EXCHANGE PRICES

- A -

1997 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
38 7/16	24 1/4	AAR	0.48	1.3	29	813	37 13/16	37 1/2	37 1/2	-3/16
47 1/8	33 1/8	AMP	1.04	2.1	39	10522	u49 7/8	48	49 1/16	-2 1/16
103 1/4	78 1/8	AMR			7	3217	99 13/16	99	99 7/16	-7/16
37 5/8	29 1/2	ASA	1.20	4.0	20	163	30 1/2	30 1/8	30 3/8	-1/8
68 13/16	49 3/4	Abbott L x	1.08	1.7	25	13262	64 13/16	63 3/8	64 1/2	+1
18 3/8	14 1/2	Acclaim	0.40	2.0	10	240	u20 7/16	19 13/16	20 1/16	-2 1/16
27 1/8	17 1/2	ABM Ind x	0.40	1.9	19	70	21 3/8	21 1/2	21 7/16	-1/8
23 15/16	17 1/8	Acceptcein			11	20	23 1/2	23 1/8	23 1/16	-1/16
78 5/8	56 1/8	ACE Ltd	0.82	1.1	12	1379	78 1/16	37	78 1/16	-2 1/16
10 3/4	10	ACM Gvt In	0.90	8.5	11	540	10 11/16	10 5/8	10 5/8	
7 7/8	1	ACM GvOpp	0.62	8.1		43	7 11/16	7 3/8	7 3/4	-1/16
10 3/16	9 1/4	ACM Man	0.90	8.6		386	u10 5/16	10 1/4	10 1/4	+1/8
10 1/2	8 1/8	Acme Elect				13	6 5/8	6 1/2	6 1/2	
20	13	Acme Mills				41	15 7/16	15 1/16	15 1/2	+3/16
22 11/16	14	ACNielsen			36	1362	20 1/8	19 13/16	20	+1/8
40 1/2	27 1/4	Acordia	0.80	2.0	16	20	39 7/8	39 7/8	39 7/8	
28 1/4	19 1/8	Acuson				1541	22 5/8	21 1/16	22 1/8	+1/8
24 1/8	19 3/8	Adams Exp	0.55	2.3	1	271	u24 1/8	24	24 1/16	-1/16
48 1/2	24 7/8	AdvMic				9824	39	36 1/4	36 3/4	-7/8
27 1/2	10 3/8	Advnc Grp	0.12	0.5	16	391	22 7/8	21 1/8	22 3/8	-3/4
17 9/16	11 3/8	Advo Inc			31	1348	u17 7/8	17 1/2	17 7/8	+3/8
78 7/8	61 1/8	Aegon$	1.31	1.7	21	677	78 1/8	77 1/2	77 3/4	+1 1/16
5 3/16	3 1/8	Aeria				93	4 3/8	4 3/8	4 1/8	-1/8
54 1/2	33	Aero-V	0.80	1.5	16	1160	u54 7/16	54	54 1/16	
82 3/4	40	AES Corp				20	78 1/2	78 1/2	78 1/2	-1/2
112 5/8	73	Aetna x	0.80	0.7	62	5899	110 7/8	107 7/8	110 7/8	-3 1/2

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Continued on next page

NYSE PRICES

4 pm close July 23

Continued from previous page

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Price data supplied by Extel, part of FT Interactive.

Yearly highs and lows for NYSE reflect the period from Jan 1 1997. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

d-new yearly low. P/E price-earnings ratio. s/s-sales. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full. § Dealings suspended.

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AMEX PRICES

4 pm close July 23

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NASDAQ NATIONAL MARKET

4 pm close July 23

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EASDAQ

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Company	Mid price	Change on day	Volume	High	Low	Company	Mid price	Change on day	Volume	High	Low
ActivCard	US$3	-0.125	0	8.25	3	Lernout & Hauspie	US$29.25	+0.25	4400	30.125	25
Artwork Systems	US$9.375	-0.125	11756	11.125	9.375	Mercer Int'l	US$9.5		0	11.75	8.125
Chemunex	FFr14	-0.5	15000	18	14	NTL	US$22.25	+0.25	0	25.125	22
Dr Solomon's ADS	US$26.125	+0.125	8	28.375	16.875	PixTech	US$3.875	+0.125	9	6.125	3.75
Esprit Telecom ADS	US$7.25		8	12.25	5.375	Schoeller-Bleckmann	Sch1153	+48	10450	1153	800
Innogenetics	US$10.125	-0.125	43750	12.75	10.125	Topcall Int'l	Sch3290	+20	2080	3318	3065

Prices for 23/7/97. Please note that mid prices are now used to calculate highs and lows.
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Dow tests water above 8,100 level

AMERICAS

US stocks opened strongly taking the Dow Jones Industrial Average through the 8,100 points level, but prices pulled back around midsession, *writes John Labate in New York.*

By early afternoon, the Dow had stood 38.09 higher at 8,099.74 while the Standard & Poor's 500 index was also stronger, up 5.55 at 939.53.

The technology-heavy Nasdaq composite was also higher, up 6.35 at 1,570.21.

Tuesday's rally in the stock and bond markets was sparked by Federal Reserve chairman Mr Alan Greenspan'e Humphrey-Hawkins testimony, which left investors expecting no near-term interest rate increase.

Mr Greenspan'e comment that the Federal Funds rate "will need to be changed at some point to foster sustainable growth and low inflatiou", eased the market's fears that the Fed would raise rates at its next meeting in mid-August. "This eliminated the major concern people have had in this market," said Mr Bill Meehan, at Prudential Securities in New York.

Investors have adjusted their expectations of earnings upwards since the start of the year as corporations continne to reap earnings gains from restructuring operations, said Mr Meehan. Many portfolio managers are also helping to buoy the market as they try to raise the performance of their funds.

Many funds have reported lags with the growth in the S&P 500, and continue to buy into the market when it dips. Foreign investors are also expected to continue buying into the US market.

Financial markets also received a boost from a better than expected budget surplus for June, released by tha Treasury Department Tuesday afternoon.

Among Dow stocks, Boeing gained $2¾ at 59\frac{1}{16}$ on news that the EU would not prevent its planned merger with McDonnell-Douglas. IBM was also a strong gainer, adding 2\frac{1}{16}$ at $105¾.

Among technology companies, Microsoft slid $¾ to 143\frac{11}{16}$, while computer maker Dell Computer rose $5 at $165. Semiconductor chip maker Intel also gained, up $1¼ at $90.

TORONTO held on to its gains at midsession, avoiding the volatility seen on Wall Street and the TSE-300 composite index was 39.54 higher at 6,753.83 in volume of 47.5m shares.

SAO PAULO slumped more than 3 per cent and then rallied strongly in volatile trading following reports thet the government's leader in the lower house of Congress, Luis Eduardo Magalhaes, was about to resign.

By early afternoon, the Bovespa index was showing a gain on the day of 193 points or 1.58 per cent at 12,428.

SANTIAGO rose strongly following the testimony by US Federal Reserve chairman Alan Greenspan and increased confidence that Brazil's exchange rate will remain stable. At midsession, the IPSA index was up 1.6 per cent to 131.04.

SOUTH AFRICA

Johannesburg pulled ahead as interest rate-sensitive stocks rose on the positive outlook for a cut in South African rates.

The overall index added 16.7 to 7,446.9 while industrials broke through 9,000 points for the first time to close up 47.4 at 9,032.3.

Industrials also gained on the back of the announcement of a R2bn radio technology contract from telecommunications utility Telkom. Golds edged back in response to the bullion price which hovered around $324 an ounce. The gold index fell 10.8 to 982.4.

Euphoric bourses set fresh records

EUROPE

European markets gave a euphoric response to the transatlantic economic signals and the firm dollar. Sharp rises were recorded in many of the leading bourses after a string of record-setting performances.

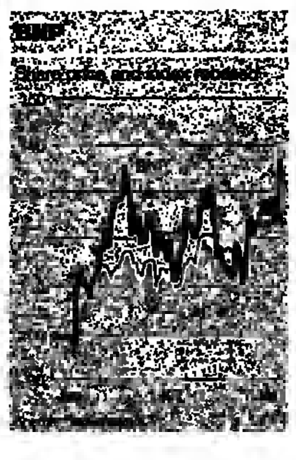
PARIS closed at a record, with the CAC-40 index 82.40 higher at 3,003.53, its first close above 3,000 points. The day's peak of 3,026.99 was also an all-time high.

The advance was fuelled by speculation in banking stocks after Deutsche Bank said that it was considering an acquisition in the French banking sector.

French bank stocks rose sharply, with both Credit Commercial de France and Banque Nationale de Paris suspended briefly after surging by the maximum 10 per cent permitted. CCF closed up 7.8 per cent at FFr282, while BNP was up just over 10 per cent at FFr274.90. Other financials included Paribas, up 7 per cent at FFr430.70, and Bancaire, up 4.6 per cent at FFr748.

However, Mr Ian McEwen at Lehman Brothers described the speculation as "very ill-founded. We see an outside, outside chance of one deal making sense, but the chance of a bid for BNP is next to zero."

Other leading stocks included Renault, which closed up 8.6 per cent at FFr179 after reaching an earlier high of FFr167.80 in heavy volume; Peugeot, up 4.5 per cent at FFr616; and LVMH, up 4.3 per cent at FFr1,626.



A record-setting FRANKFURT pulled back from its best levels late in a session which saw overcapacity trigger problems that halted trade for several hours. The Dax index, up 4.2 per cent at 4,406.09, put in its best performance this year while the Ibis-indiceted Dax finished up 87.18 at 4,394.82, having peaked at 4,441.09.

Dresdner Bank forecast the Dax would top the 5,000-point level in the next two weeks, but predicted a level of 4,500 points by the end of the year.

Banks remained in the spotlight. Deutsche Bank soared DM5.50 to DM126,50 after the bank beat forecasts with a 27.5 per cent jump in net income in the first half of 1997 as rallying markets provided a diet of profits.

"It has rained porridge in the markets this year and we had the right spoon," Mr Rolf Breuer, chief executive, told a news briefing.

The Bavarian bank merger candidates ramained a strong market. Vereinsbank shot up to an intraday peak of DM125 and by the close it had managed to hold on to a rise of DM11.50 at DM111.50. HypoBank shares rose DM5.10 or 6.9 per cent at DM79.60. Among the insurers, Allianz climbed 37.50 or 8.2 per cent to DM493.0.

The decision to leave the composition of the Dax index unchanged until next year was seen as negative for Adidas, which had been tipped to join. The company lost DM7.80 to DM212. Karstadt dropped DM24.50 to DM680 in spite of being allowed to remain an index constituent.

ZURICH jumped 3.4 per cent as banking and drug issues, especially Novartis, led the way. The SMI index rose 192.8 to 5,896.6 in heavy turnover estimated at about SFr3.6bn.

Novartis rose SFr137 to SFr2,446 on positive expectations ahead of today's first-half sales figures.

Roche certificates, by contrast, rose by only SFr185 to SFr14,515 as investors switched to Novartis.

In speciality chemicals, Clariant was SFr45 higher at SFr1,050, benefiting from the release of sales above expectations while Ciba SC, SFr7.50 higher at SFr141, was supported by news it would swap its PVC heat stabiliser business with Witco's.

Banks were also sharply higher. UBS rose SFr44 to SFr1,698, SBC SFr15.50 to SFr421, and Credit Suisse SFr12.25 to SFr204.75.

MILAN finished below its best levels after a day of huge turnover, estimated at L3,005bn, on domestic and foreign demand and with liquidity being diverted from the fixed income markets into equities. The real-time Mibtel index was up 235 at an all-time high of 15,163 after a peak of 15,393.

Among individual stocks, Parmalat, the recently underperforming food group, jumped to a high of L2,730 before settling back to close 134 higher at L2,662.

AMSTERDAM cloaed sharply higher bnt off its early peaks. The AEX index closed up 27.86 or 2.8 per cent at an all-time high of 988.48 after reaching 1,006.26.

The focus remained on financials and high-tech stocks. ASM Lithography led the high-tech sector with a gain of Fl 16.40 to Fl 178.20, off an early high of Fl 185, after better-than-expected first-half earnings.

ABN Amro was the most active stock, trading up Fl 1.60 at Fl 49.90 in turnover of 14.9m shares as it is favoured by private investors among financials.

ING rose Fl 1.80 to Fl 104. Aegon was up Fl 6 at Fl 161 and Fortis Amev Fl 4 at Fl 98.90.

BRUSSELS advanced to another record close with the Bel-20 index up 62.04 or 2.4 per cent at 2,601.56 after peaking at 2,606.88.

VIENNA jumped 3.2 per cent to close at a record high, boosted by the strength in neighbouring markets and high turnover in preferred shares of Bank Austria after Salomon Brothers upgraded its recommendation on the stock.

The ATX index climbed 44.34 to 1,452.78 as Bank Austria preferred rose Sch21 to Sch436. OMV, the oil and energy market leader, was the day'e best performer with a rise of Sch84 to Sch1,740.

MOSCOW climbed 4.3 per cent as foreign demand supplemented steady domestic buying. The RTS index closed 472.2 higher at 492.6.

Written and edited by Michael Morgan and Clare Gascoigne

FTSE Actuaries Share Indices

Jul 23								THE EUROPEAN SERIES
Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FTSE Eurotrack 100	2758.99	2762.11	2764.21	2765.48	2768.47	2770.06	2772.78	2774.82
FTSE Eurotrack 200	2747.09	2746.23	2747.45	2742.31	2746.17	2745.30	2748.47	2747.71

	Jul 22	Jul 21	Jul 18	Jul 17	Jul 16
FTSE Eurotrack 100	2679.77	2643.10	2701.83	2732.98	2716.04
FTSE Eurotrack 200	2668.97	2635.26	2683.30	2716.99	2718.45

Base value 1000 (26/10/90); High/day: 100 - 2774.82; 200 - 2750.77 Low/day: 100 - 2751.83 200 - 2741.10. † Partial.
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East European fears may be overstated

East European markets are counting the cost of the extensive flooding over the last fortnight, but analysts believe western concerns may have been overstated, writes Clare Gascoigne.

One of the worst-hit districts has been Wroclaw, one of the main industrial areas in Poland. Four stocks are still suspended from the stock market – paint manufacturer Polifarb Wroclaw, engineer Rafako, electrical equipment maker ZEW and chemicals group Viscoplast – because their plants are flooded. Mr Douglas Helfer at Foreign & Colonial says that the situation is far from clear, but he believes the effects may be less than first thought. "For Poland, the most pessimistic estimates I've seen are of a ½ per cent fall in GDP and a 1 per cent rise in inflation," be said.

On Tuesday the Polish government approved plans to borrow $800m from the World Bank and the European Investment Bank to help finance relief schemes, but analysts do not believe the move will have a significant effect on the budget.

The Wig index, which stood at 1,585 on July 10, recovered slightly yesterday to close at 1,476, up 7.4 points on the day.

In the Czech Republic, where the government has estimated the damage at between $1.45bn and $2.9bn, Mr Helfer said the concerns were wider than the damage caused by the floods. "It's really too soon to listen to rumours," he said. The PX50 index closed down 1.5 points at 501.2.

Allianz, Germany's largest insurer and the group with the greatest exposure in the badly-hit Oder valley, said it expected flood claims could amount to hundreds of millions of marks.

Emerging markets: IFC weekly investable price indices

Market	No. of stocks	Dollar terms: July 18 1997	Dollar terms: % Change over week	Dollar terms: % Change on Dec '96	Local currency terms: July 18 1997	Local currency terms: % Change over week	Local currency terms: % Change on Dec '96
Latin America	(247)	722.61	-7.6	+34.3			
Argentina	(30)	1,142.49	-5.2	+20.2	700,725.03	-5.2	+20.2
Brazil	(66)	557.18	-13.7	+48.6	2,258.86	-13.6	+45.3
Chile	(46)	795.66	-3.3	+28.3	1,328.79	-3.1	+26.0
Colombia[1]	(14)	828.08	-1.3	+30.8	1,621.56	-0.7	+43.7
Mexico	(63)	727.01	-3.0	+37.3	2,461.45	-2.1	+38.1
Peru[2]	(17)	243.58	-7.8	+23.8	394.58	-7.6	+26.3
Venezuela[3]	(9)	1,005.96	-5.4	+38.2	11,422.38	-4.4	+43.3
Asia	(709)	232.21	-2.0	-8.1			
China[4]	(27)	87.93	+12.0	+19.3	92.08	+12.0	+19.2
South Korea[5]	(156)	82.54	-3.2	+6.8	87.10	-2.7	+13.1
Philippines	(42)	228.04	+6.5	-22.3	309.60	-0.2	-17.0
Taiwan, China[6]	(90)	196.05	+2.1	+29.8	208.64	+2.2	+31.9
India[7]	(77)	103.71	-4.1	+31.6	131.42	-4.1	+31.1
Indonesia[8]	(49)	128.90	-3.1	+1.0	176.45	-0.2	+7.7
Malaysia	(148)	256.93	-5.9	-23.7	249.73	-1.1	-20.4
Pakistan[9]	(28)	282.19	+4.3	+44.2	520.65	+4.3	+45.6
Sri Lanka[10]	(5)	138.74	-3.4	+47.0	179.00	-3.1	+52.1
Thailand	(87)	149.26	+4.8	-32.6	180.45	+5.6	-19.9
Euro/Mid East	(288)	182.80	-0.8	+21.2			
Czech Rep	(7)	55.88	+0.4	-20.4	63.66	+2.4	+0.2
Egypt	(16)	95.33	-0.5	-	95.08	-0.6	-
Greece	(54)	341.78	-4.6	+41.0	651.00	-3.5	+60.7
Hungary[11]	(12)	291.45	+0.8	+48.1	674.67	+2.1	+76.3
Israel	(40)	129.11	+0.6	+29.1	140.46	-0.2	+40.5
Jordan	(7)	208.52	+2.9	+11.7	311.40	+3.0	+11.6
Morocco	(5)	122.14	+0.5	-	129.29	+1.2	-
Poland[12]	(31)	616.66	-7.6	-15.6	1,352.73	-3.4	+2.6
Portugal	(29)	193.48	-2.7	+32.4	240.53	-1.3	+54.2
Russia	(15)	167.49	-2.2	-	172.45	-2.0	-
Slovakia	(5)	91.44	-1.5	-	97.17	+0.3	-
South Africa[13]	(63)	237.27	+1.2	+13.7	223.57	+1.5	+11.0
Turkey[14]	(58)	231.78	-3.4	+55.9	16,905.21	-1.5	+121.8
Zimbabwe[15]	(5)	643.23	+7.5	+35.9	1,078.02	+7.4	+42.8
Composite	(1222)	329.91	-4.0	+11.8			

Indices are calculated at end-week; weekly changes are percentage movement from the previous Friday. Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1990; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Nov 6 1992; (8)Sep 28 1990; (9)Mar 1 1991; (10) Dec 31 1992; (11)Dec 31 1993; (12)Dec 31 1993; (13)Dec 31 1992; (14)Dec 31 1992; (15)Aug 2 1993; (16) July 2 1993.

FT/S&P ACTUARIES WORLD INDICES

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NATIONAL AND REGIONAL MARKETS. Figures in parentheses show number of lines of stock	TUESDAY JULY 22 1997: US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	MONDAY JULY 21 1997: US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX: 52 week High	52 week Low	Year ago (approx)
Australia (78)	232.09	-0.1	205.21	169.61	218.72	208.81	0.2	3.65	232.43	205.38	170.19	217.07	208.48	243.87	190.90	195.24
Austria (25)	198.03	-0.4	175.10	144.72	186.82	186.51	0.5	1.78	198.78	175.64	145.56	185.64	185.53	203.31	174.70	177.34
Belgium (29)	252.16	0.3	222.98	184.30	237.86	232.72	1.2	2.94	251.38	222.13	184.07	234.77	229.94	261.11	208.88	209.39
Brazil (30)	291.53	7.9	257.78	213.08	274.74	580.20	8.0	1.26	270.08	238.65	197.76	252.24	537.48	322.44	170.26	178.20
Canada (127)	218.05	0.7	192.81	159.36	205.49	217.86	1.1	1.66	216.50	191.30	158.58	202.19	215.48	220.82	154.12	157.45
Denmark (32)	404.43	0.1	357.60	295.57	381.14	379.84	1.0	1.36	403.87	356.87	295.73	377.19	375.74	421.25	303.46	308.63
Finland (26)	299.34	-0.4	264.68	218.78	282.10	336.03	0.5	1.84	300.63	265.66	220.14	280.77	334.36	314.06	186.67	191.92
France (84)	227.00	0.8	200.72	165.90	213.93	217.51	1.6	2.42	225.12	198.92	164.84	210.24	214.15	237.57	186.94	188.12
Germany (59)	230.57	1.8	203.88	168.51	217.29	217.29	2.7	1.30	226.55	200.19	165.89	211.58	211.58	233.51	168.70	170.81
Hong Kong, China (68)	530.61	-0.3	469.35	387.93	500.24	527.97	-0.3	2.87	532.41	470.45	389.85	497.23	529.51	539.63	407.55	418.96
Indonesia (27)	223.44	0.9	197.57	163.29	210.57	354.67	-0.9	1.83	221.44	195.67	162.15	206.81	357.95	254.90	183.62	205.43
Ireland (17)	369.48	1.0	326.70	270.02	348.20	351.06	1.6	2.74	365.82	323.26	267.87	341.65	345.00	374.84	270.08	274.45
Italy (54)	103.57	0.7	91.58	75.69	97.60	136.21	1.5	1.74	102.82	90.85	75.29	96.02	134.20	105.42	73.26	76.14
Japan (485)	136.50	-0.3	120.70	99.76	128.64	99.76	-0.5	0.79	136.94	121.00	100.27	127.89	100.27	150.97	107.57	148.83
Malaysia (107)	470.53	-0.3	416.04	343.87	443.42	476.78	-0.1	1.44	471.88	416.98	345.53	440.70	477.15	660.85	460.21	550.46
Mexico (27)	1664.90	1.5	1472.13	1216.74	1569.00	14307.71	1.1	1.30	1640.51	1449.58	1201.24	1532.11	14144.71	1736.98	1121.58	1150.90
Netherlands (19)	421.44	2.4	372.64	307.99	397.16	392.49	3.3	1.98	411.62	363.72	301.41	384.42	379.91	427.48	279.89	286.08
New Zealand (14)	88.32	-1.4	78.09	64.54	83.23	72.42	-0.3	4.01	89.58	79.14	65.58	83.64	72.64	96.47	80.77	80.87
Norway (41)	318.02	0.3	281.20	232.41	299.70	322.77	1.0	1.90	317.11	280.20	232.20	296.16	319.47	326.60	246.04	249.70
Philippines (22)	150.26	0.6	132.86	109.82	141.61	213.12	0.4	0.96	149.49	132.09	109.46	139.61	212.32	214.07	138.54	211.45
Singapore (42)	386.25	0.2	341.52	282.28	364.00	259.91	0.1	1.17	385.39	340.53	282.19	359.92	259.74	448.01	380.08	394.71
South Africa (44)	357.55	-0.1	316.15	261.31	336.96	357.48	-0.1	2.41	358.02	316.36	262.16	334.37	357.86	370.12	301.49	349.01
Spain (33)	256.98	2.0	227.23	187.81	242.18	297.01	2.6	2.23	252.01	222.68	184.53	235.36	289.91	276.05	171.91	175.54
Sweden (46)	507.15	1.9	448.43	370.63	477.93	585.27	2.0	1.78	497.62	439.97	364.60	465.02	573.54	511.96	394.35	341.77
Switzerland (33)	309.71	0.7	273.85	226.34	291.87	284.23	0.9	1.16	307.72	271.91	225.32	287.39	281.64	329.59	231.69	240.61
Thailand (42)	61.03	-1.9	53.96	44.60	57.51	73.31	-0.3	4.22	62.20	54.96	45.55	58.09	73.50	155.94	47.55	155.94
United Kingdom (213)	318.63	0.7	281.74	232.86	300.29	281.74	0.8	3.57	316.30	279.49	231.61	295.40	279.49	325.28	231.01	231.30
USA (642)	378.80	2.3	334.94	276.83	356.98	378.80	2.3	1.62	370.37	327.27	271.20	345.90	370.37	378.67	254.79	257.66
Americas (826)	348.17	2.3	308.09	252.99	326.23	291.52	2.3	1.62	338.51	299.11	247.87	316.14	285.03	347.34	233.08	238.05
Europe (716)	279.51	1.1	247.14	204.27	263.41	264.10	1.6	2.43	276.52	244.34	202.48	258.25	260.07	284.44	204.71	206.99
Nordic (150)	428.99	1.1	379.31	313.51	404.28	434.08	1.6	1.70	424.30	374.92	310.69	396.27	427.39	437.88	291.46	297.58
Pacific Basin (881)	153.98	-0.3	136.15	112.53	145.11	113.94	-0.4	1.25	154.43	136.46	113.08	144.23	114.42	163.63	127.16	161.59
Euro-Pacific (1597)	206.38	0.5	182.48	150.83	194.49	170.42	0.7	1.92	205.40	181.30	150.40	191.83	169.25	209.12	173.65	180.40
North America (769)	368.82	2.2	326.11	269.54	347.57	369.05	2.2	1.62	360.88	318.88	264.25	337.04	360.06	368.86	248.65	251.78
Europe Ex. UK (503)	252.01	1.3	222.83	184.17	237.48	247.48	2.0	1.79	248.84	219.88	182.21	232.40	242.66	256.55	185.65	188.72
Pacific Ex. Japan (396)	306.28	-0.2	270.82	223.84	288.64	274.37	-0.1	2.72	306.97	271.24	224.77	286.68	274.69	320.65	268.97	279.61
World Ex. US (1825)	210.22	0.6	185.88	153.63	195.11	177.26	0.6	1.90	208.02	184.69	153.05	195.21	175.87	212.89	176.94	181.69
World Ex. UK (2254)	258.75	1.4	228.80	189.10	243.85	230.23	1.6	1.57	255.08	225.39	186.78	238.23	226.70	260.16	199.58	202.51
World Ex. Japan (1982)	329.14	1.7	291.02	240.54	310.16	320.73	1.9	1.95	323.63	285.97	236.96	302.25	314.64	331.60	233.10	236.07
The World Index (2467)	263.92	1.4	233.36	192.88	248.72	235.15	1.5	1.77	260.35	230.05	190.64	243.15	231.71	265.77	202.32	205.05

Latest prices were unavailable for this edition.

Bangkok drops 4.3% as baht tumbles

ASIA PACIFIC

Worries about the Thai baht's plunge to a record low against the dollar prompted a sell-off in BANGKOK as investors anxiously booked profits. The SET index closed down 28.50 or 4.3 per cent at 631.28 in turnover of Bt7.1bn.

Banks, which lost 6.9 per cent, and the finance sector, down 6.7 per cent, were among the day'e biggest losers. Thai Farmers Bank topped the active list, falling Bt11 to Bt107 while Nava Finance fell Bt2.75 to Bt25.25.

TOKYO erased earlier gains to fall for the third consecutive session. Renewed concerns about the financial sector's health hit banks and securities houses, while blue-chip exporters succumbed to profit-taking, *writes Gwen Robinson.*

The Nikkei 225 average fell 26.51 to 20,130.51 after moving between 19,999.80 and 20,324.03. Stocks opened moderately higher on positive sentiment generated by New York'e overnight surge and the rise of Nikkei-225 futures prices in Chicago.

However, investors took profits toward the middle of the day and selling accelerated on fresh rumours about problems at several financial institutions, including Sanyo Securities, a second-tier broker, and Sakura Bank which denied incurring big losses on derivatives dealings.

Volume rose from 279m shares to an estimated 315m. Declines led advances 662 to 393 with 183 unchanged. The Topix index of all first-section stocks fell 1.97 to 1,529.63 and the capital-weighted Nikkei 300 was off 0.13 at 297.96. In London, the ISE/Nikkei 50 index rose 5.31 to 1,658.41.

Sanyo Securities fell Y14 to Y155 on reports thet it was planning to liquidate its non-bank financial affiliates. The broker later denied the reports. Sakura Bank fell Y27 to Y824, but Nomura Securities rose Y40 to Y1,530.

Blue-chip exporters were mixed. Some leading issues fell prey to profit-taking while others recouped losses to rack up substantial gains toward the day's end. TDK fell Y70 to Y9,030 and Pioneer Electronic Y20 to Y2,900. Among semiconductor-related issues, Advantest climbed Y170 to Y9,990, Kyocera Y10 to Y9,290 and Tokyo Electron Y20 to Y6,840.

Pharmaceuticals continued to gain ground. Sankyo rose Y60 to Y4,360 after reaching an intraday record of Y4,430. Takeda Chemical Industries rose Y30 to Y3,430, Yamanouchi Pharmaceutical Y20 to Y3,130 and Taisho Pharmaceutical Y60 to Y3,340.

In Osaka, the OSE average fell 39.80 to 20,937.73 and volume rose to 27.8m shares.

HONG KONG powered ahead to a record high, taking its lead from the overnight performance of Wall Street. The Hang Seng index finished at 15,738.81, up 292.03 points or 1.9 per cent.

HBSC, under profit-taking pressure recently, rebounded HK$6 at HK$265. Property issues were generally higher on hopes that local property prices would soon bottom out in response to the steady outlook for interest rates.

KUALA LUMPUR rose 1.6 per cent as local and foreign institutional bargain-hunters snapped up recently weakened index-linked stocks. The KLSE composite closed 16.06 higher at 1,034.07.

KARACHI dropped 2.5 per cent, hit by profit-taking after the 12.6 per cent surge of the previons seven sessions as foreign investors rediscovered the market. The KSE-100 index lost 50.64 at 1,965.87.

BOMBAY jumped 1.55 per cent on a third day of strong overseas demand. The BSE-30 index rose 64.64 to 4,251.13 as investors targeted multinationals and software stocks.

هكذا من الاصل

INVESTMENT INTO THE UK

The Conservatives put Britain ahead of the rest of the EU in attracting foreign investment. **Stefan Wagstyl** looks at what Labour must do to maintain the momentum

New tests for money magnet

The tide of foreign investmant into Britain is flowing stronger than ever.

Despite fears that increasing international competition for investors might divert some of it to other European countries, foreign direct investment has in tha last year come to the UK in record amounts. The country's stock of direct investment rose £9.3bn to £160bn, more than three times the level a decade ago, according to government figures released last week.

The year's new projects include Europe's biggest ever inward investment – the £1.7bn project by LG of South Korea to build an electronics assembly plant and semi-conductor factory in South Wales. There has also been a record crop of expansions of existing investments – including announcements for plans for new British-made models by Toyota Motor, Nissan Motor and Honda Motor, the Japanese car makers.

Foreign companies have ranged far beyond the realms of manufacturing to invest in British service and utility industries, notably in a spate of acquisitions by US groups of regional electricity companies and in heavy investment in telecommunications networks. They are also investing in ever more sophisticated operations in the UK – such as research and development and marketing and management centres – a prime example is the laboratory that is to be built in Cambridge by Microsoft, the US software company.

The new Labour government wants to make the most of increased interest in R&D since it squares with its own plans to create more high-skill high-pay jobs in

> An estimated 500,000 UK jobs have been created by foreign companies since 1979

Britain. Mrs Margaret Beckett, the trade and industry secretary, says: "The thing that has always worried people about inward investment into the UK is it is just acrewdriver assembly. I think there are very encouraging signs that as inward investors have become established here they are starting to see Britain as a place with real potential for creativity and development."

Labour says it is just as committed to promoting foreign investment as the Conservative adminstrations that presided over its unprecedented expansion during the past 15 years. Mrs Beckett's first overseas trip as minister was to Japan, the source of the largest flow of new investment in recent years, to deliver a personal message of welcome to the chief executives of inp Japanese companies.

The secretary of atate says Labour remains wedded to the pro-business policies it developed before the election, notably commitments to macro-economic stability, co-operative industrial relations and investment in education. The government also plans to maintain co-operative ties with the rest of the EU – a key attraction for the many foreign companies that are using the UK as a base for their European businesses.

Labour's message, particularly its emphasis on stability, has been welcomed by foreign companies. Mr Cegill Shin, president of the European subsidiary of Samsung, the South Korean group with electronics interests, says: "Probably the most important factors are the stability of the UK economy and the UK government's supportive approach to inward investors."

Like other countries, the UK also offers financial aid to companies planning job-creating investments. The rising level of grants has led to criticism of the system, particularly in cases where different British regions have found themselves competing for the same scheme. Labour is reviewing the aid regime as part of its comprehensive spending review but drastic changes seem unlikely. Ministers take comfort from the fact that the UK generally offers potential investors less than other EU countries.

There is little agreement on the precise level of foreign direct investment, because there is no requirement in the UK to report investment plans. Companies often prefer to keep quiet about investments in new products or processes for fear of counter-attack by their competitors.

The government's figure of £9.3bn for the year to the end of March compares with a much larger total of US$32.8bn for the calendar year 1996 published this month by the Organisation for Economic Co-operation and Development. Different ways of measuring flows, including mergers, acquisitions and joint ventures account for at least some of the discrepancy.

But whatever its absolute level there is no doubt that foreign investment around the globe has soared in the 1990s as companies respond to the pressures of international competition and the opportunities created by worldwide economic deregulation. Britain, with its well-established tradition of economic openness combined with membership of the EU, is benefiting from these economic forces more than most other countries. According to the OECD, the UK is second only in the US among developed countries in attracting direct investment and a long way ahead of France in third place.

The other side of the coin is that the UK is also a leading source of external investment for other countries, again second only to the US. In recent years, the outflow of direct investment has comfortably exceeded inflows (see OECD chart, page 3). In 1996 the UK investad $43.7bn overseas against the $32.8bn inflow. This is not a sign of economic weakness, but of Britain'a openness in international trade and investment.

Inward investment needs in be kept in context. The money foreign companies invest in the UK amounts to under 10 per cent of total industrial investment, running at around £100bn on the government's figures. External investment is not a substitute for internally generated growth, particularly in an advanced economy such as the UK. Labour has recognised the significance of local efforts to stimulate investment by its plans to establish regional English development agencies (RDAs) to mirror those that already operate in Wales, Scotland and Northern Ireland. Mrs Beckett says that tha RDAs' prime role will not be competing for foreign investment but in harnessing local resources.

Nevertheless, tha benefits of foreign investment go far beyond the capital involved. The government estimates that since 1979 nearly 500,000 UK jobs have been created by overseas businesses. Workers at foreign-owned companies tend to be better paid and produce more per capita than the national average and to stay in their jobs longer than most other British employees. About half the output of foreign-owned companies is exported.

Moreover, foreign companies have brought new technologies, skills and management practices to the UK, which have helped to improve Britain's international competitiveness. The benefits are most epparent in the motor industry, where Japanese car makers have raised standards at bundreds of component plants. In electronics, US, German, Japanese and, increasingly, South Korean companies have helped to rebuild an industry in which Britain was struggling to maintain an international presence.

With Britain's role as a magnet for foreign investment so well established it is difficult to see what might deter more investment in future. Already some 60 per cent of investment is re-in

Continued on page 8

IN THIS SURVEY

Illustration: Simon Fell

ECONOMIC AND MONETARY UNION • by Wolfgang Munchau

Two sides to one currency

As far as FDI is concerned, Emu is both a liability and an asset for Britain

European economic and monetary union is bound to trigger big economic changes in the EU. One of the most difficult to assess is the effect it will have on the strategies of foreign investors.

The issue came to the forefront in January this year, when Mr Hiroshi Okuda, president of Toyota, the Japanese car manufacturer, said that the company might shift its European investment strategy away from the UK if the UK stays out of Emu. Mr Okuda seemed to imply that Toyota would step up its investment in continental Europe, while keeping the car maker's UK investments at roughly current levels.

Mr Okuda's off-the-cuff remarks triggered a debate about the effect of Emu on direct inward investment in the UK. At issue is whether the UK's advantages as Europe's most favoured location for foreign investment could be eclipsed by a decision to stay outside Emu.

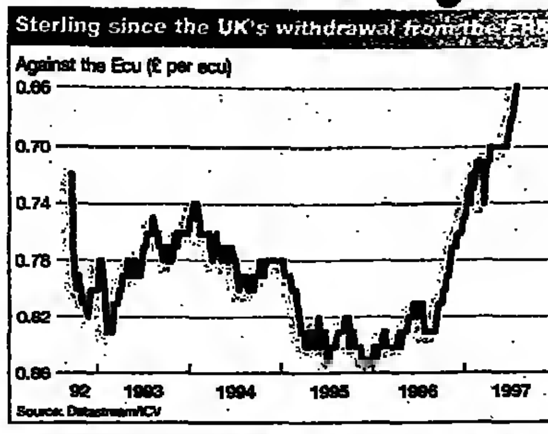
Opponents and supporters of the UK's membership of Emu both invoke inward investment in defence of their position. If they were both right, the UK would simultaneously enjoy lasting investment inflows and suffer damaging outflows.

Either scenario is plausible. Supporters of Emu have frequently maintained that Toyota's warning could be symptomatic of increasing nervousness among foreign investors about the UK staying out of Emu.

The concerns have been temporarily cast aside by the recent Franco-German disputes over Emu, the botched attempt by the German government to revalue the gold reserves in order to the meet strict economic qualifying criteria, the socialist victory at the French election and growing political opposition against Emu inside Germany. These events have tarnished Emu's attraction in the eyes of foreign investors, who might even reward the UK for staying out.

But unless the project is derailed, the question of whether a successful Emu could damage Britain is bound to resurface.

The UK is the largest target market for foreign investors in the EU, accounting for about 40 per cent of the total, a proportion that has been surprisingly constant since the second world war.




Okuda, president of Toyota: gave the Emu debate new edge

This proportion declined substantially – to about 15 per cent – during the period between 1958 and 1973, when the UK was outside the then European Economic Community. After the UK joined in 1973, it went back up to its pre-EEC levels.

The reason behind the decline was related, to a large extent, to the way foreign investors perceived the two region's relative economic prospects. Back in 1958, the EEC's prospects were judged to be largely positive, while the UK had entered into a prolonged phase of relative decline against the rest of Europe.

Whether the 1958-1973 experience repeats itself depends on foreign investor's perceptions of today's situation. It appears that attitudes towards the UK have changed – perhaps even been reversed – as Germany, France, Italy and Spain have struggled with low growth, high unemployment, structural bottlenecks in the economy and political gridlock. With a greater degree of labour market flexibility and deregulation, the UK is viewed, even in large parts of continental Europe, as relatively attractive. Emu alone is unlikely to change that.

The single most critical variable will be the relative degree of exchange-rate stability of the pound and the euro. The greater the volatility of sterling, the lesser the attractiveness of the UK as a location for investors hoping to export into continental Europe. Since its ejection from the exchange-rate mechanism, the pound has been extremely volatile.

A closely related issue is the stability of the euro itself and of the economies of the various EU member states. If Emu turned out to be economically successful and popular, the UK would almost certainly be paying an opportunity cost in terms of staying out. If Emu were proved to be unstable and the UK stayed out, by contrast, inward investment into the UK could conceivably increase.

The single currency could not only lead to a change in inward investment between nations, but also within nations.

Mr Andy Pike of the Centre for Urban and Regional Development Studies at the University of Newcastle, has found that the north-east region could face bigger risks than the rest of the country if the UK stays out.

He says the north-east is a moderately peripheral region by EU standards, in that it has benefited from inward investment but failed to build up distinctive industrial specialisms.

"If the UK remains outside Emu, these processes of regional specialisation may further concentrate within the regions of member states participating in Emu, and cause the north-east to become even more peripheral," he says.

If the UK stays outside Emu, foreign investors might instead turn towards Ireland, which shares some of UK's attractions as a haven for inward investors, such as language and labour market flexibility.

There is no question that by staying out the UK would risk some economic losses. At this point, however, the opportunities and risks are finely balanced.

STATE AID FOR INVESTORS • by Stefan Wagstyl

Granting and groaning

There is growing concern that the policy on grants is unfair and anti-competitive

The new Labour government is reviewing the regime for distributing state aid to potential investors, following criticism of escalating costs and complaints of unfair competition. The system is unlikely to be abandoned, given its success in helping to attract foreign companies to the UK and the extensive inducements offered by other EU countries. But the scheme could be reformed to target poor districts of the country more effectively.

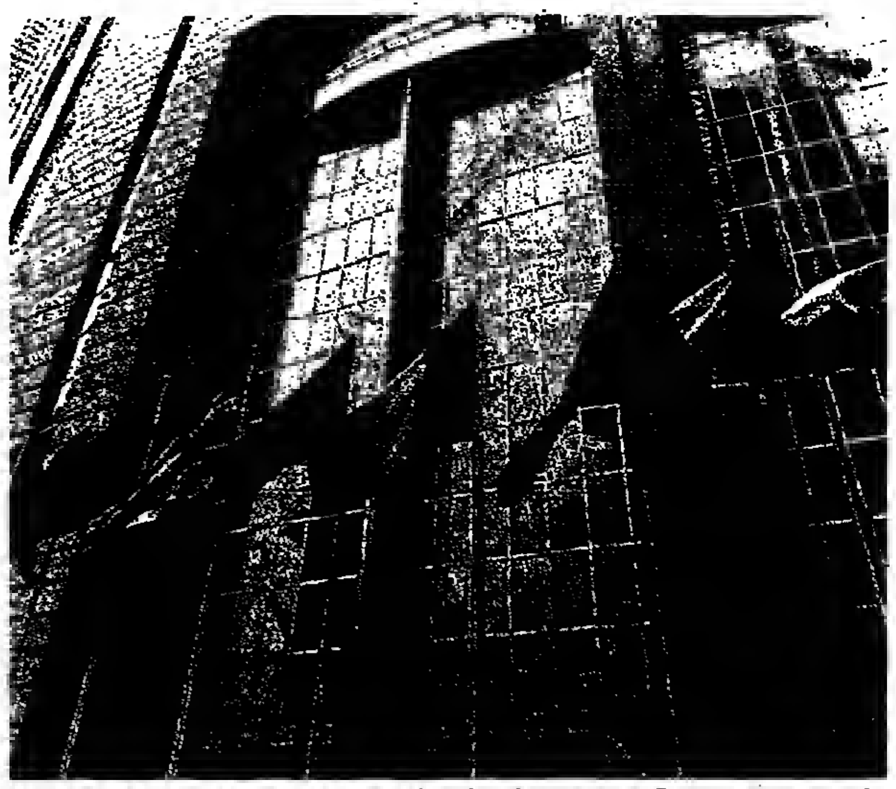
Mrs Margaret Beckett, the trade and industry secretary, says the government's comprehensive spending review embraces aid for industry. She declines to comment on the outcome but says she is concerned about the rising costs of aid: "If you get into an unwise spiral of financial bids and counter-bids, then everybody ends up getting less for their money." (See interview, opposite.)

European Commission officials have also raised concern about the levels of aid. Their main worry has been the use of public finances to support state-owned enterprises such as Air France, the French carrier. They have also protested at the lavish grants to companies investing in eastern Germany.

The more modest use of funds to attract non-EU companies into the EU has generally attracted less criticism from the commission, not least because almost every EU member offers aid. Therefore, when one EU member tries to launch a case claiming illegal state aid against another, it is often faced with a barrage of criticism about its own grants.

When, in 1995, for example, the UK challenged an award by the Irish government to help the sale of state-owned Irish Steel with aid worth about £39m, Dublin raised questions about London's £71m grant to Ford Motor of the US for the modernisation of the Jaguar plant in Coventry. The UK government dropped its opposition, though British Steel, the UK's largest steelmaker, is still pursuing the fight in the European Court of Justice where it seeks to have the grants declared illegal.

Britain's financial aid scheme is not designed for attracting foreign investment per se but investment in general. Mr Andrew Fraser, chief executive of the Invest in Britain Bureau, the government's investment promotion agency, says there is no discrimination in favour of foreign investors or in favour of new investors. Existing companies – whether British or foreign-owned – are also eligible for aid for financing expansion. Even modernisation schemes that "safeguard" existing jobs qualify. For example, Ford this year won the promise of about £15m aid for a £100m renovation of the Halewood plant in Merseyside, even though the factory is laying off workers and reducing capacity. The aid will help protect the jobs of the remaining staff.


European parliament: one EU member's complaints of unfair grants are easily countered by another's

However, the main source of government funding – Regional Selective Assistance – is available only in assisted areas, poor regions of the country, and is principally concentrated in Scotland, Wales and the north of England. A separate scheme operates in northern Ireland, with especially generous benefits. Regions eligible for the scheme have attracted more foreign investment in relation to the size of their economies than other regions. According to a 1995 report by the House of Commons trade and industry committee, fully 50 per cent of the manufacturing jobs created by inward investment in the 10 years to 1992 went to Scotland, Wales and northern England – even though these regions accounted for only 18 per cent of existing manufacturing jobs. Scotland and Wales, with just 14 per cent of the population, have in as many years secured half the total RSA grants (for both foreign and British investors).

Recent beneficiaries include LG, the South Korean group, which is receiving £200m aid for a £1.7bn investment in a semiconductor and electronics plant in South Wales, which will employ 6,100. Hyundai, also of South Korea, has received aid after building a £1bn microchip plant in Scotland, as has Germany's Siemens for a £1.1bn microchip plant in north east England.

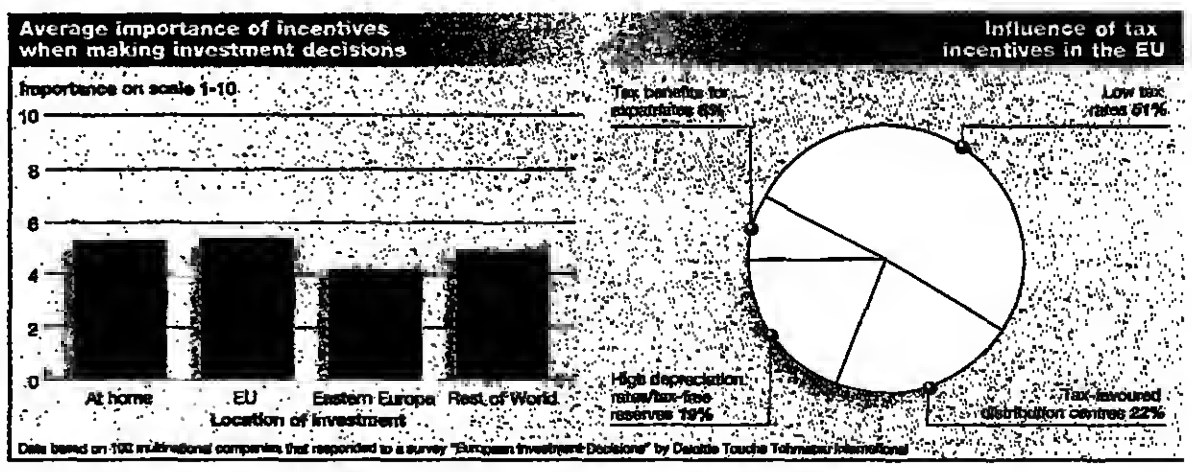
The successes of RSA-eligible regions have led to complaints from other areas about aid. Sir Brian Corby is chairman of the East of England Investment Agency, which covers east Anglia and the eastern Midlands, which has little RSA-eligible territory. He says: "In some regions, the approach is too broad brush. Virtually the whole of Scotland is an assisted area. We need a more refined approach in identifying areas for assistance. The east of England doesn't get its fair share."

But Mr David Rowe-Beddoe, chairman of the Welsh Development Agency, says there is no need for "a root and branch reform". State aid plays a part in inward investment decisions but other factors also matter such as location, transport links and the quality of the potential workforce. However, state aid must not be used to transfer jobs from regions where aid is provided to others where it is not, says Sir Brian, adding "that is nonsense".

Nevertheless, the growing competition for projects has, over the past few years, led to increases in aid. The government's main criteria for disbursing support concerned the number of jobs to be created, combined with the amount of capital the investor is putting into the scheme. Precise figures are difficult to obtain because they are kept secret by the government, and because they come from different sources, including local and regional authorities and the DTI. Nevertheless, there is little dispute that LG has been awarded a record amount per job of about £30,000. This compares with about £16,000-£17,000 per job at the Siemens plant near Newcastle. DTI officials argue that the UK still pays out considerably less than EU rivals. Some of the highest grants have been paid in eastern Germany, where awards spiralled to the point that the European Commission intervened in the case of DM780m aid offered to Volkswagen, the car maker, for two plants employing 2,300 in lower Saxony. This is worth over DM300,000 per job, or in excess of £100,000. Brussels and Bonn are in dispute over the commission's attempt to try to block DM241m of the aid.

International comparisons are difficult since governments can influence a project's finances in many ways other than grants. For example, local authorities can provide land at below-market prices. Or a trunk road that was going to be built anyway could be routed to suit a potential investor and cut the cost of access roads. Taxes can be set low, as in Ireland, where the corporate tax rate is just 10 per cent, or they can be offset with a complex range of regional reliefs, as in Germany. Another support mechanism, largely hidden from public view, is loan guarantees, which are often given in Germany by regional state-controlled banks.

It would be difficult to establish an EU-monitoring system that covered all the possibilities. The biggest incentive governments have to keep a lid on spending is that untrammelled grant-giving creates a vicious spiral that eventually damages all countries. It also exposes the authorities to criticisms from established companies that believe that aid to newcomers promotes unfair competition.



LEASING • by Stefan Wagstyl

Plant for hire – no previous owner

Britain leads the EU in convincing investors of the merits of asset finance

Banks are redoubling their efforts to sell to foreign investors the advantages of leasing, which is one of British industry's most popular financing techniques, but is far less developed in many other countries.

Leasing accounts for about one-third of the total financing of machinery and equipment in British industry. For big projects such as semiconductor plants the figure is as high as 90 per cent. Until about three years ago, companies planning to invest in Britain were rarely given information about the cost advantages of leasing until they had firmly committed themselves to the UK and had embarked on detailed financial preparations.

But both bankers and government officials realised that the attractions of leasing could be made into a strong selling point for investing in the UK. So banks and the government agencies stepped up efforts to promote the merits of leasing to potential investors even before they had decided on the UK as their preferred location. Mr Alistair McGregor, an executive with Hambros Bank, a merchant bank that has a specialist team in leasing, says: "We showed that leasing was an important pool of money available to investors." Mr McGregor urges clients to take leasing into account when assessing the overall costs of a British-based investment, alongside the more obvious factors such as government grants, tax regimes, and the costs of loans and equity. He also tells potential investors that while leasing is available in other countries, the method is particularly useful in the UK because of the way the British tax system operates.

In the UK, companies are allowed to write off against tax 25 per cent of the value of any investment in plant and machinery every year on a declining balance basis. This means that they can write off 25 per cent in year one, then 25 per cent of the rest in year two and so on. This works well as an investment incentive for companies which are making profits. But new investors, including new inward investors, rarely make profits in the first years of a project, while they are starting operations. So they have no profits against which to offset the cost of their investments. Companies are therefore allowed to transfer the tax allowance to finance companies making profits.

The finance company buys the machine and leases it to the industrial group making the investment. The financing charge reflects the fact that the finance company is benefiting from the 25 per cent tax allowance.

Mr McGregor estimates that using leasing can reduce the cost of a £100m investment by perhaps £10m, depending on the terms of the lease, borrowing costs and other conditions. The advantage could be reduced by changes to lease taxation proposed in the Budget, which the leasing industry is trying to challenge. But even if the changes are passed into law, leasing is expected to retain significant advantages for many projects.

Leasing is not a panacea. Its effectiveness depends on a careful calculation of likely future profits on a project. Very early profits reduce the advantage. Also, big international companies with existing UK operations may sometimes find it cheaper to borrow directly in the bond markets or to raise funds in other countries.

Nevertheless, the advantages in the UK are so significant that Britain leads other EU states in leasing. According to Leasing Life, a trade magazine, leasing in the UK last year totalled 24.28bn ecu, compared with 22.89bn ecu in Germany and under 10bn ecu for all EU states. The dominance of Britain and Germany reflects their tax regimes. Britain's position ahead of Germany is also due to the UK's sophisticated and liberalised financial services industry.

The largest providers of lease finance are the high street banks and building societies, including Barclays Bank, National Westminster Bank, and the Abbey National. Smaller companies that offer specialist advice include Hambros, Dresdner Kleinwort Benson, and Babcock & Brown, an affiliate of Nomura Securities of Japan.

New equipment leasing business

for 1996 and comparative figures for 1993 to 1995 (Ecu bn)

	1993	1994	1995	1996
UK	17.06	18.85	19.67	24.28
Germany	19.88	19.22	21.62	22.89
France	9.10	8.89	9.72	8.97
Italy	6.28	6.80	8.11	8.94
Spain	2.58	2.74	3.23	3.74
Holland	2.57	2.65	2.82	2.64
Sweden	1.37	1.81	2.05	2.42
Switzerland	0.53	1.75	2.19	2.34
Ireland	0.98	1.05	1.16	2.18
Austria	1.88	1.74	2.00	2.09
Belgium	1.27	1.38	1.47	1.78
Czech Rep	0.48	0.82	0.88	1.33
Portugal	1.42	1.10	1.06	1.28
Norway	0.41	0.73	0.99	1.15
Other*	1.83	2.36	2.89	3.84

* Denmark, Poland, Hungary, Slovakia, Finland, Greece, Morocco, Luxembourg, Slovenia, Russia, Bulgaria
Source: Leasing Life Magazine

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INTERVIEW Margaret Beckett, secretary of state for trade and industry

Screwdriver assembly out, science in

The government wishes Britain to be seen as a base for R&D as well as manufacturing

For Mrs Margaret Beckett there is a clear difference between the new Labour government's inward investment policies and those of its Tory predecessor.

While much of the approach remains the same, Labour is changing the emphasis from promoting the UK as a low-cost production base to a centre of "quality, added-value, high technology and market leadership".

"One nf our principal worries about the government we replaced was that it seemed to us to be drifting dangerously and headlong into the argument that we competed fundamentally on lowest cost irrespective of what happened to quality," says Mrs Beckett, the trade and industry secretary, whose department is responsible for inward investment.

"Our essential argument is that this was a counsel of despair for Britain...It seemed to us that Britain had no choice but to aim for quality, added-value, the exploitation nf the best technology, and looking for markets in which we can be among the leading players."

Mrs Beckett says that this approach to inward investment reflects Labour's belief in promoting education and investment across industry as a whole. It also goes "with tha grain" of foreign investors' own strategies, in raising the quality of the activities they carry out in the UK. Worries Britain was little more than a base for "screwdriver assembly plants" have been swept away by cootinuing investments in research and development in the UK and in deepening links with British suppliers.

"I think there are very encouraging signs that as inward investors have become established here they are starting to see Britain as a place with real potential for creativity and development. People who came in initially with less demanding requirements are starting to see Britain as a good place for better things in the future," says Mrs Beckett, whose Derbyshire constituency is near a Toyota Motor plant.

However, Mrs Beckett would not like to have her emphasis on promoting investments with high added-value jobs to be mistaken for a lack of interest in other types of project. "It would be a mistake to try to be too constrictive. I would not like to give any impression that we are seeking to discriminate against any potential investor." She adds that some schemes that might seem modest at the start can become more attractive as they develop over the years.

Mrs Beckett has lost no tima in seeking to reassure foreign companies that Labour will remain as committed to welcoming investment from overseas as the previous government. Her first foreign trip was to Japan, the biggest source of new foreign investment in the past 20 years. In a keynote speech there she pledged to continue welcoming foreign investment, to maintain economic stability, and to promote co-operative industrial relations.

She also promised to approach EU relations in a business-like manner – in contrast to the rhetoric generated during the general election campaign. "One hugely important area where assurance was sought and given was in our relations with the EU. There was clearly a good deal of anxiety about the developing debate in the UK and a good deal of concern it would do harm to the interests of the business community...if that climate of debate continued. Investors wanted reassurance that the new government had a positive attitude to the EU and I was able to give it," she says.

Margaret Beckett announcing new Invest in Britain Bureau figures last week. She says investors are now seeing Britain as 'a place with real potential for creativity and development'

The secretary of state adds that concerns that Labour might take an ideologically dogmatic approach to economic policy are wide of the mark. "This is a government which is very practical in its approach to business concerns. I don't think the Labour party has ever been as dogmatic as it's portrayed."

She says Labour will take a practical view of European monetary union. For this is what business – including the foreign investor – wants: "My impression is that like everybody else they don't know what the deal [over Emu] is, so they doo't know where our best interests lie. But what they most want is that the government's approach to the euro will be governed by a hard-headed assessment and that when that assessmeot is made we shall be anxiously seeking the views of the business community."

Mrs Beckett believes there is no sign of foreign investment in the UK diminishing. She says that, with 60 per cent of the inflow accounted fnr by companies already established in the UK, Britain has a solid base on which to build. Bnt she adds that competitinn is increasing: other EU countries, which once seemed less interested in attracting non-EU investors, are nnw very keeo to secure projects.

"The figures do fluctuate from year to year. We are operating in a slightly more difficult environmeot because a few years ago other EU countries were not actively competing for inward investment but as they have seen the changes it has wrought io Britain they have become more welcoming. However, we were neither lnte nor reluctant partners and nne of the assets that we have is the duration of our relationships."

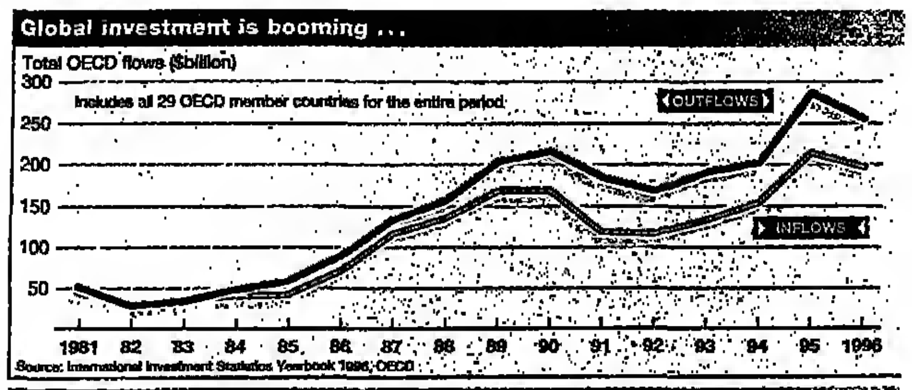
Mrs Beckett acknowledges there has been concern about the rising level of government subsidies for job-creating investments. She says that subsidies do not nn their own make schemes happen but do play a role when lncatinn is being considered. Subsidy policy is being examined as part of the gnvernment's comprehensive spending review. Mrs Beckett will not be drawn on the possible outcome, but says that the review will address concern about subsidies. "If you get into an unwise spiral of financial bids and counter-bids, then everybody ends up getting less for their money."

The government would be "very unhappy" about companies moving from one part of the UK to annther simply to secure subsidies, she says. Mnre broadly, the issues oecd to be discussed both within the UK and in the EU.

Mrs Beckett sets considerable store by the development agencies that Labour is planning to establish tn promote reginnal English economies. These would be based on Scottish Enterprise and the Welsh Development Agency, which have done much to attract foreign investment tn Scotland and Wales. Like them, however, their primary role would nnt be tn promnte foreign investment per se, but to encourage overall ecooomic develnpment. "If the RDAs were to see their principal jobs as attracting inward investment that would be a very big mistake because there is the whole wnrld nf the business community in which they should nperate."

Stefan Wagstyl

Global investment is booming ...



Source: International Investment Statistics Yearbook 1996, OECD

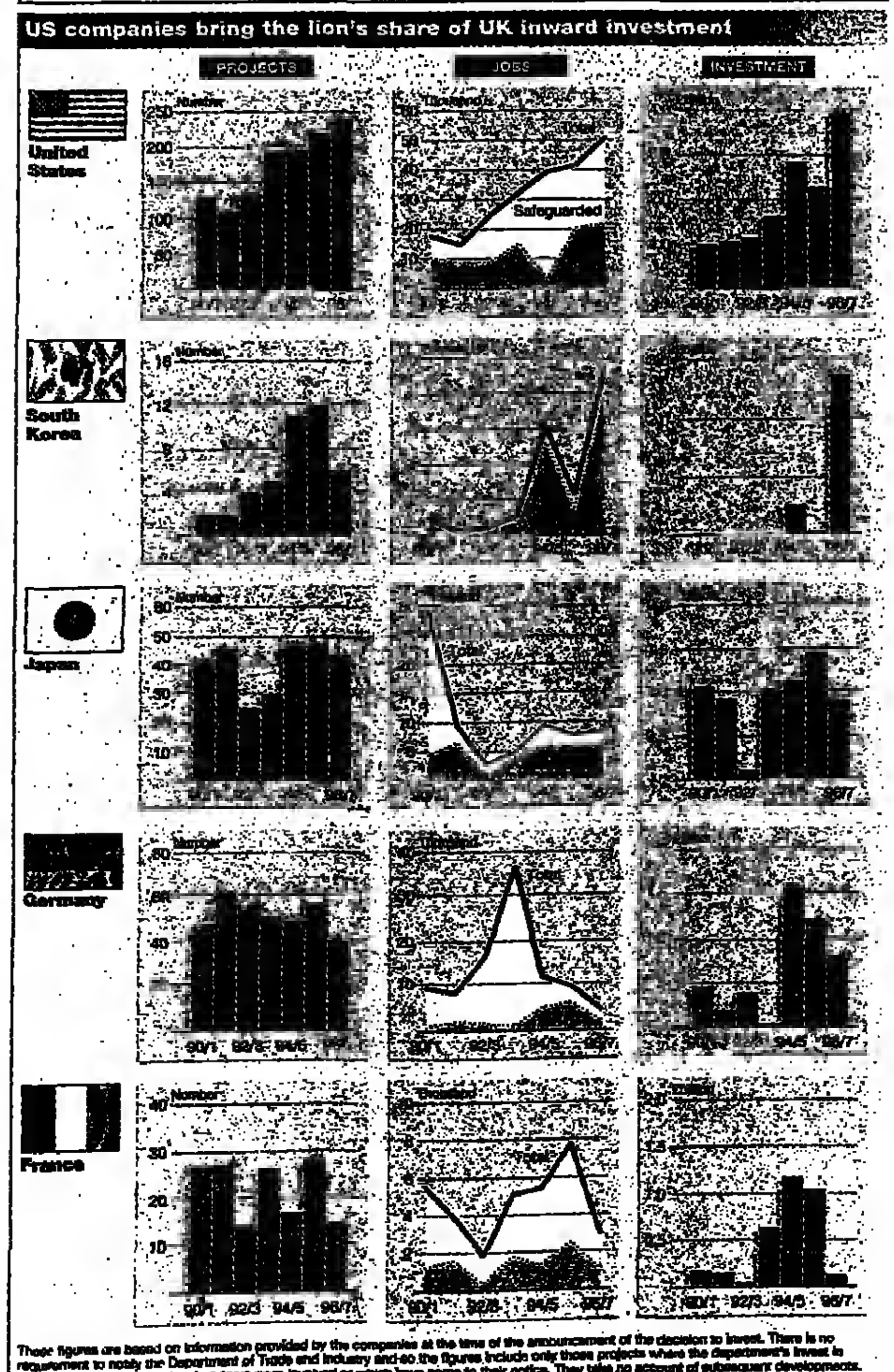
... with the UK among the biggest beneficiaries

Direct investment flows in OECD countries ($m)	Inflows 1994	Inflows 1995	Inflows 1996*	Outflows 1994	Outflows 1995	Outflows 1996*
UK	10,497	22,810	[illegible]	[illegible]	[illegible]	[illegible]
Germany	1,548	12,050	-3,243	17,134	38,573	27,883
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
France	10,975	13,357	14,383	10,896	10,694	17,734
Other W. Europe[1]	47,267	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
E. Europe[2]	3,888	10,674	5,371	198	122	83
US	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Canada	7,259	10,739	6,896	7,414	5,747	7,561
Mexico	10,972	8,963	[illegible]	[illegible]	[illegible]	[illegible]
Japan	888	41	222	17,938	22,628	23,468
Other Asia-Pacific[3]	7,501	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total OECD	152,790	215,104	198,328	202,093	288,994	259,178

[1] Austria, Belgium-Luxembourg, Denmark, Finland, Greece, Iceland, Ireland, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey [2] Czech Republic, Hungary, Poland [3] Australia, South Korea, New Zealand

Source: International Investment Statistics Yearbook 1996, OECD. Most data for 1996 are provisional

US companies bring the lion's share of UK inward investment



These figures are based on information provided by the companies at the time of the announcement of the decision to invest. There is no requirement to notify the Department of Trade and Industry and so the figures include only those projects where the department's Invest in Britain Bureau and its regional partners were involved or which have come to their notice. They take no account of subsequent developments.

Source: Invest in Britain Bureau

THE VIEW FROM JAPAN • by Bethan Hutton

Old names, new projects

The big investors are renewing their commitments. A look at factors that explain why

It is now 25 years since the first Japanese manufacturers arrived in the UK. When the first three companies made their investments in 1972, that small step passed almost unnoticed. Now, Japanese businesses in the UK are hard to miss: more than 260 Japanese companies have set up operations, creating more than 65,000 jobs.

The importance of Japanese investment in the UK was demonstrated by the first overseas trip made by the new secretary of state for trade and industry, Mrs Margaret Beckett. During her first month in office, she flew to Japan to reassure Japanese industry that the oew governmeot was as investment-friendly as its predecessor. She also faced questions about Labour's attitude to European economic and monetary union, an understandable concern for Japanese companies, as the main aim for many of their UK operations is to be closer to European markets.

Increasingly, bowever, British-made products from Japanese companiea are being shipped elsewbere, including back to Japan. Nissan makes the English origins of its Primera model a selling point back in Japan – the image of the Jaguar and the Mini have helped give Britisb cars a reputation for style and quality.

Nissan, which waa the first Japanese car maker to set up shop in the UK, 25 years ago, announced in January this year that it will make a third model at its Sunderland plant from the year 2000. This will not only create 800 oew jobs, with more than £200m of new investment, but will lead to more design work being carried out in the UK – something that the government is trying to encourage.

Other manufacturers are also expanding: NEC recently announced an additional £200m investment to expand and upgrade its Scottish semiconductor plant. This will increase production by 50 per cent by the end of next year, as well as introduce more sophisticated technology.

As one British investment promotion official points out, the UK cannot expect many more massive first-time Japanese investments, because all the large Japanese companies already have operations in the UK. The main activity now is ongoing reinvestment by tbe big names, and new investments by smaller companies. Last year, the average Japanese investment created 54 jobs.

The Japanese presence in the UK is now firmly established, but what keeps the flow of new money coming? A well-qualified, flexible labour force is one attraction often mentioned, but equally important is the language factor. English is the first foreign language for most Japanese people: finding managers capable of dealing directly with French or German-speaking staff is not impossible, but is an extra hurdle.

On a more personal level, the Japanese expatriate infrastructure is well-established in the UK. There are Japanese achools, restaurants, newspapers, and Japanese-speaking doctors, all of whicb make it easier for *families to adjust to a foreign posting.*

The key to many recent investments, bowever, is the Japanese system of developing close, long-term relationships with suppliers: a large number of recent investments has been by smaller companies, setting up UK subsidiaries to service the same leading car or electronic companies they deal with at home.

Two car parts suppliers are a good example of this. Yachiyo Industry, which makes fuel tanks, sun-roofs and other body parts, and Yutaka Giken, which makes exhaust systems and brake parts, both recently announced joint ventures in the UK with Honda and Unipart, the British car parts company. Both companies work closely with Honda in Japan, so extending that relationship to the UK has been a logical move.

Joint ventures are usually the iovestment vehicle of choice for smaller companies taking their first step overseas: a local partner can help them through the entire process, from choosing locations to dealing with the bureaucracy.

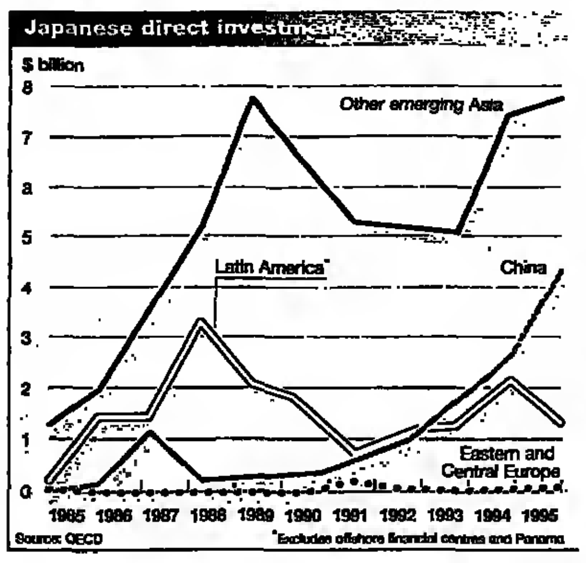
Koden Electronics is a medium-sized Japanese firm that designs and makes navigational equipment, such as radar and GPS. In January last year, Koden invested £750,000 in a UK joint venture with a British partner, Navico, to manufacture *small radar devices for* the worldwide market.

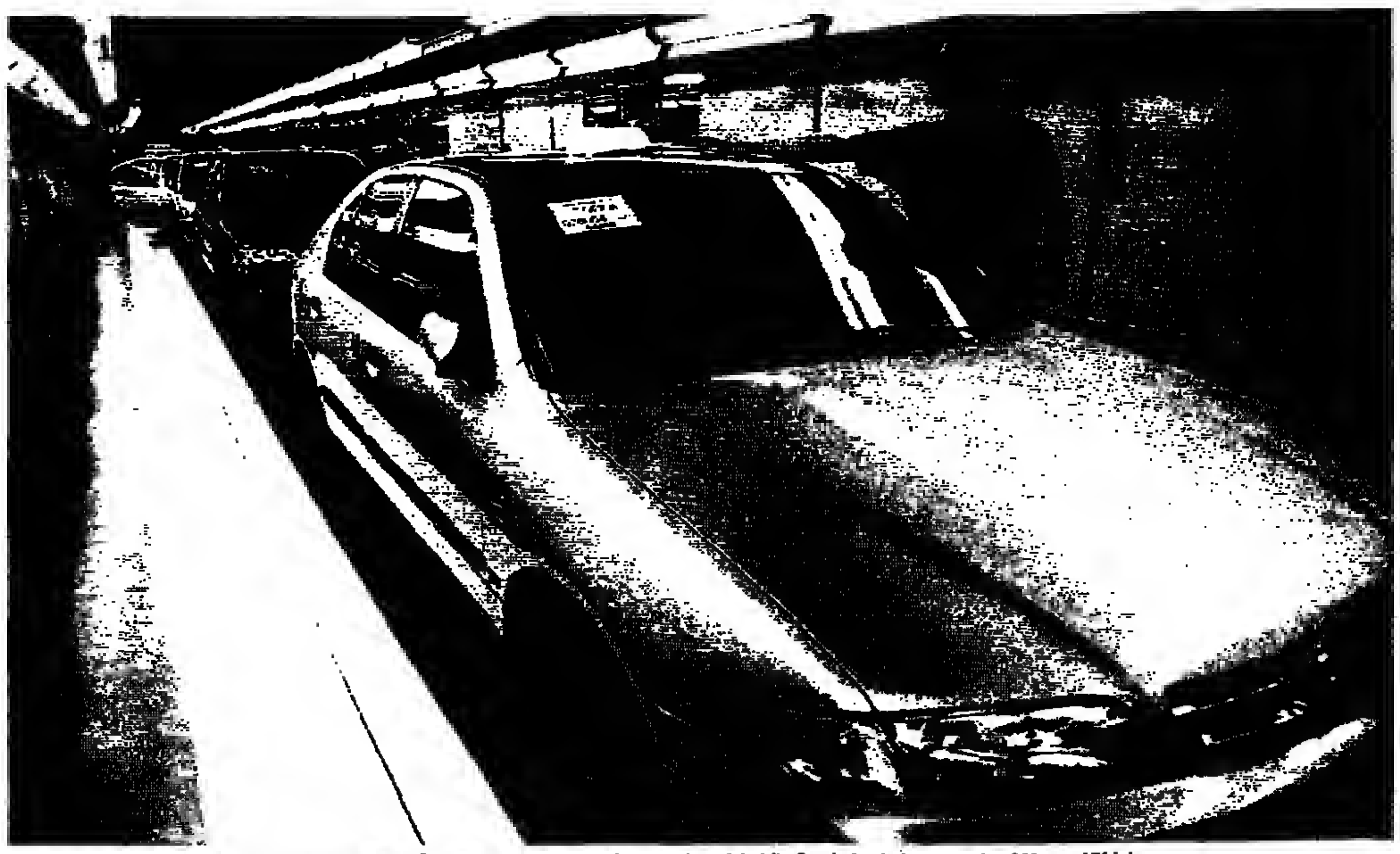
The new business, Konav, is in an assisted area, but Mr Yoshimasa Ito, president of Koden, saya: "Grants and incentives are important, but secoodary." The main reason for choosing to invest in the UK was the compaoy's long-established relationship witb Navico, together with the availability of quality labour, says Mr Ito.

Although the inward investment path is now well-trodden, and belp is available, language and culture can still present problems. There are big differeoces betweeo British and Japanese practices. Yutaka Giken says differing wage structures and welfare systems mean that it is finding it difficult to set-up a joint venture.

Also, circumstances can change betweeo the planning stage and opening up the new business. A prime example is tbe effect of excbange rates. "Wheo we decided to invest, it was about Y130 to the pound; now it is Y200," says Mr Ito of Koden. Currency fluctuations have forced the company to adjust its plans, but not change its mind about the investmeot.

Short term considerations, such as the strength of the pound, might act as a temporary deterrent to Japanese investment, but there is no sign of the flow drying up.




You can with a Nissan: the company announced in January that it would make a third model at its Sunderland plant, creating 800 new UK jobs

PROFILE Komatsu

Rising sterling, falling margins

The response of one Japanese company to the strength of the pound

Mr Keith Tipping, managing director of the UK operations of Komatsu, the large Japanese construction machinary maker, chooses his words carefully when asked to discuss the recent surge in the value of sterling. It has, he says, been making his life "more difficult".

Komatsu is the world's second biggest maker of construction machines such as excavators, after Caterpillar of the US. It set up its UK factory in Birtley, Tyne and Wear, in 1986 as part of a project to make its European sales operations virtually independent of non-European plants.

Nowadays, Komatsu's European sales total some 8,000 machines a year, virtually all of which are made in Europe. Birtley this year is expected to make around 2,000 wheeled and tracked excavators, worth some £120m at distributor prices, and the yearly figure is planned to rise to 3,000 by 2000. This is part of the company's programme to increase the whole of its European sales and production by 50 per cent by the turn of the century.

Komatsu also has large production sites in Hanover in Germany and near Venice in Italy. The breadth of its European manufacturing activities reduces the impact of fluctuations in a singla currency such as sterling.

Even so, Mr Tipping is being forced to look more to overseas components suppliers as a way of balancing out the effects of the higher pound. By increasing component imports, which currently account for about 65 per cent of all Komatsu's parts *purchases for its UK plant*, and which become cheaper as the pound rises, the company can cut its overall purchasing bill.

Komatsu is particularly looking to step up component purchases from eastern Europe – where companies can take advantage of low labour costs.

At present, Birtley accounts for virtually nothing of Komatsu's total purchases of east European parts for west European plants. The company's purchasing bill from eastern Europe is projected to rise four or fivefold by the end of the century.

Komatsu's UK production target for 1997 is a steep climb from last year's total of 1,500. If it meets it it will set a new record for Birtley.

Peter Marsh

COMPONENTS PRODUCERS • by Richard Wolffe

The supplier moves next door

US and Japanese car parts makers are locating close to their clients' British sites

The headlines may be dominated by the larger inward investments made by international car makers but the sheer oumber of smaller projects by their supplier companies has become hard to ignore over the past 12 months.

Much of this investment is the result of the relentless trend among car makers to rationalise the number of their suppliers – at the same time as eocouraging the favoured few to become global players.

For the survivors, being close to the customer has become of paramount importance. By following the larger investors, smaller suppliers can cement a relatioo-ship around providing a better service – from prodnct design to just-in-time dellveries.

At the heart of the UK car industry, the West Midlands region bas profited greatly from the growing investment by parts suppliers. But the trigger remains the buge projects by customers in the region such as Jaguar and BMW.

Jaguar, owned by Ford, is investing £400m in building its new X200 saloon in Birmingham, while BMW is spending a further £400m on ao engine plant nearby. BMW is further committed to a £3.5bn project to develop its "baby" Land Rover in Solihull.

"There has been considerable interest around Rover and Jaguar in the past couple of years, acting as a catalyst for a lot of these supplier companies to invest in their own right," says Mr Robert Haymon-Collins, director of regional development at the West Midlands Development Agency.

"Then there is a ripple effect among the key suppliers, which want to move in their suppliers as well. These suppliers in turn look for other markets in the UK and continental Europe, so that from the initial investmeot you get this snowball."

Orbseal of the US, a Missouri-based producer of sealants, is a good example of this. Work with Ford in the US gave the supplier the vital link with Jaguar, which led to a £2.5m investment in the company's first European plant in Birmingham last month. Backed by a governmeot grant of £225,000, Orbseal expects to create 200 jobs over the next five years, as the company works on the new X200 saloon.

"Our principal US customers – Ford, GM and Chrysler – bave all expressed an interest for their key suppliers to become global and we have taken that on board," says Mr Ray McCluskey, Orbseal's UK manager.

"When we came to review what we were doing io Europe, it was clear we could oot serve customers from the US. So we looked at different facilities in France and Spain, hut Birmingham gave us the flexibility of location that we oeeded. The fact that we are near Jaguar is most convenient because it gives it access to us at the drop of a hat. But this also puts us close to Rover and other manufacturers."

Other US automotive suppliers have chosen to locate in the UK on the basis of production costs, more than the location. Hillsdale Tool, part of tbe Eagle-Picher group, wanted to establish a European headquarters for its engine damper production.

With customers all over Europe – including Ford, Mercedes-Benz and Rover – Hillsdale looked at locations across mainland Europe. The UK proved so competitive that the UK move was combined with the acquisition of CR Elastomers of Germany, a supplier of engine dampers to Fiat. Hillsdale is now transferring the plant and machinery from Germany to its new base in Tamworth, Staffordahire.

Over the next four years, Hillsdale is investing £7m in the UK and creating 200 jobs, as well as sourcing £9m of compooeots locally. The plant moved into production at the start of this month.

"We chose the UK because of the competitive edge that we have in the UK," says Mr Tony Parr, managing director.

"Our labour costs are a lot lower than they are in Europe, and so are our raw material costs. We may be struggling at the momeot with the strengtb of the pound, bot we are very coofident and innovative in the UK as far as our workforce is concerned."

The process of closer contact between suppliers has been taken a step further down the supply chain hy TRW Steering Systems, part of the US automotive group. With a long-established base in Resolven, Neatb, TRW has successfully encouraged its own suppliers to launch new operations alongside its plant on Wales'a first automotive supplier park.

TRW says that eight suppliers are looking to move to the park, including a newly-created joint venture between TRW and Toyoda Machine Works of Japan. The £10.7m joint venture manufactures pumps for power steering systems, and will create 200 jobs in the oext three years.

"We wanted to have our suppliers rigbt next door," says Ms Alison Evans, financial director of TRW at Resolven. "So thet when we design a product, they can *be involved at an early stage* in case there are any quality issues.

"It also means we won't bave so much inventory. Above all, it helps because we are a first-tier supplier and some of our suppliers do oot get the interface with the customers that we do."

PROFILE LG Electronics

Creating Wales's silicon valley

The impact of the South Korean group's £1.7bn Newport project will be huge

A milestone in Europe's biggest inward investment project will be reached this October when LG Electronics, part of the LG Group of South Korea, opens the first phase of a massive construction project in Newport in south Wales.

The display systems coming off the production line for use with personal computers will be the first products of a £1.7bn project agreed last year that should eventually create 6,100 jobs.

A 250 acre site to the west of Newport will require 14,000 tonnes of steel and 61,000 cu metres of concrete in establishing a network of factories for LG Electronics and its sister company LG Semicon, one of the world's biggest microchip companies and another part of the LG Group.

The complex, the size of a small village, should be operating fully around 2002.

It was announced last July after nine months of negotiations between LG and the Welsh Development Agency, the government organisation seeking to bring inward investment to Wales. At the time it was hailed as one of the most prestigious high-tech schemes in Europe over the past decade.

A year on, Mr C. B. Kim, managing director of the UK arm of LG Electronics, says both the display systems and semiconductor parts of the project are on schedule. Recruitment is already well under way, with LG planning to have about 1,000 employees in Wales by the end of the year, most of them people living in or around Newport. By December 1998, the figure should go up to 2,000.

"Everything is going reasonably well," says Mr Kim.

His big worry is keeping track of the costs of construction and be also says that he is "concerned" about the sharp rise in sterling over the past year.

If the pound maintains its current levels, LG will almost certainly suffer from seeing its products from south Wales made significantly more expensive in export markets compared with what appeared likely when the project was agreed.

Of the total investment, £450m is being spent on the LG Electronics part of the operation, which as well as making display monitors will make cathode ray tubes for use in these products and other components, while £1.3bn is going on the semicondnctor production facility.

The display screen and tube plants will employ 4,400 people while the more capital intensive microchip unit will provide work for 1,700. LG estimates that abont 15,000 people will be directly employed by companies supplying the two parts of the operation when it is fully operating.

The LG Electronics part of the project will start this year with display monitor production. Tubes and other essential components will be shipped from Korea. Next year, the scheme will slip into higher gear, with the colour tube plant on the site starting up and providing tubes for the display factory.

About the same time, two other units on the site, making components called deflection yokes and fly-back transformers which are required for the display products, will start up to make the complex more sufficient in making its own parts rather than requiring these to be bought in from outside.

By 2000, the plant should be making 2m display monitors a year, most of them destined for use with personal computers made by companies such as Compaq or Apple.

Outpnt of TV tubes around that time is scheduled to be about 3.3m a year. Of these, 2m will be used on the site; another 1m sold to other makers of TVs and computer displays. The remaining 300,000 are expected be shipped to another LG factory already operating in north-east England for use in TV set production.

Annual sales from the LG Electronics part of the operation should reach £410m by 2000, and about £450m two years later. About 70 per cent of the output is expected to be exported. The semiconductor part of the complex will start up later than the LG Electronics operation. Foundations for the microchip production plant should be laid this year, ready for manufacturing to start mainly of memory chips by late 1998.

For both parts of the programme, finding the right employees is a big part of the overall operation. Of the 1,000 or so LG Electronics' employees who should be in place by the end of this year, 180 will be high-grade prodnction supervisors and engineers who will be required to spend special training of between four and 19 weeks in Japan. The recruitment programme for other employees will move into top gear in September and October, when the company expects to be taking on 100 new people a week.

As for LG Semicon, 50-60 graduates are due to start work at the company this autumn. After initial training in Wales they will go to Korea for two separate three month training periods at existing LG microchip factories.

When it is in full production, it is envisaged that of the total Semicon staff in Wales, a third will have university degrees. LG is also setting up a special internship programme for graduates. Under it they will be able to gain work experience in both Wales and Korea in the semiconductor field, and when they finish their studies get the chance of a full time job with LG.

Peter Marsh

The LG Newport site: the whole complex should be in operation by 2002

A Samsung production line in Korea: the company started a UK investment wave in 1995 when it announced plans for a £450m plant in the north-east of England

THE VIEW FROM KOREA • by Jack Burton

The storm before the calm

There has been a surge in Korean investment over the past two years. Can it last?

When Samsung Electronics announced in the autumn of 1995 that it was building a £450m consumer electronics plant in north-east England, it signalled a sudden wave of South Korean investment into the UK.

Within the next year, Samsung's Korean rivals followed suit as they claimed different regions of the UK as their own. The LG Group announced the biggest ever inward investment project in the UK with a huge semiconductor facility to be built in south Wales (see profile left). Hyundai Electronics selected Scotland's Silicon Glen for its main semiconductor plant in Europe. Meanwhile, Daewoo Electronics was already operating a VCR plant in Northern Ireland.

These big electronics projects have been mainly responsible for making the UK the leading European Union investment site for Korean companies. Korean investment in the UK is estimated at $6.75bn, which accounts for up to 65 per cent of its total investment in the EU.

The 24 manufacturing projects established by Korean companies in the UK are heavily concentrated on the electronics industry, from audio components to advanced computer chips. Others include the manufacture of fork-lift trucks by Halla in Wales and a joint venture whisky business involving Jinro in Scotland.

But the surge of Korean investment into the UK may be ending as quickly as it began. "More large-scale projects are unlikely over the next several years, although we expect a steady stream of smaller businesses and sub-contractors," aays one UK official in Seoul. "The next big wave will probably not occur until after the turn of the century when Korean car makers might be interested in establishing plants in western Europe."

Having secured a firm foothold in the UK to avoid possible EU trade barriers, Korean electronics companies see little need to expand their facilities there for the moment. "We went into the UK as a means to tap into the EU market and any future investments will depend on the growth of the European market," says Mr Lee Chang-suk, a managing director for global strategy at the LG Group.

Moreover, Korean companies have grown cautious about overseas investments as an economic downturn at home and fierce competition in foreign markets are straining their financial resources.

Korean semiconductor companies are suffering from a global aupply glut that has led to sharp falls in prices for computer chips and a resulting drop in earnings. Samsung has postponed plans to add a chip plant to its consumer electronics factory in Wynyard.

There is little immediate prospect that Korea's other main industries will follow the electronics companies in the UK.

Although Korean electronics companies have been aggressive in entering the advanced industrial nations of the EU and North America, other Korean industries prefer emerging markets.

Korea's steel and petrochemical industries have concentrated on Asia, which attracts three-quarters of total overseas Korean investments. Korean shipbuilders are staying at home.

Korean car makers have matched the electronics companies in overseas expansion, but they are establishing plants in developing countries because of their market growth potential and cheap labour costs.

Although Korean car companiea are flocking to Europe, they see eastern Europe as their main manufacturing base for the region because of its competitive wage levels and the prospect that demand will grow quicker there than the saturated markets of western Europe.

The UK is also facing increased competition from other European countries in offers of generous investment incentives to Korean investora. Daewoo has decided that Poland and France will be its main European manufacturing centres because of state support from their governments. But this has not affected its plans to expaod its VCR plant in Northern Ireland over the next few years.

However, other Korean industrial groups believe that the UK has advantages that will ensure that it remains their favourite investment site in the EU. "It is easy to secure very productive workers, while London's position as Europe's most important financial centre is also an important consideration," says LG's Mr Lee.

Equally crucial is the English language, which is widely taught in Korea unlike other European languages. This makes it easier for Korean managers to communicate with local workers in the UK.

Korean executives expect few changes under the new Labour government that would discourage investment in the UK. Most have accepted the EU social chapter being applied in the UK. But there are concerns about Britain's schedule in joining the European monetary union.

"The UK is our main production base in the EU, so we would prefer EMU membership as soon as possible. But we realise that this is a long negotiating process and we are confident that the UK will join eventually," says Mr Lee.

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PROFILE Ford Motor


Then and now...right, a Model T, the car Ford started making at Trafford Park Manchester in 1911; left, modern-day production at the company's Halewood plant

Stalling maybe, stopping no

The company's 86 years in the UK have not been without controversy but few doubt its commitment

The threatened closure earlier this year of Ford'e car factory at Halewood raised questions about the company's future in the UK. Coming at a time of continuing financial losses by the corporation'e UK subsidiary, together with deep-seated concern throughont the motor industry about global over-capacity, Halewood's outlook appeared grim.

To a group that sold 6.65m vehicles last year, a factory that produces 167,000 is relatively small fry. in the end, of course, Ford was persuaded to keep the factory active into the next century with a £15m grant.

It is not unusual for Ford to play tough when government and regional development hand-outs are at stake, but there was never much doubt about the company's wider commitment to the UK. It employs 30,000 people there, and few foreign companies have invested as much and as consistently in the country. The money earmarked for the new Halewood model alone is expected to exceed £100m.

It is part of a Ford commitment that stems back to the early days of motoring. It already had a production presence in this country by 1911, when it opened a Model T assembly factory at Trafford Park, Manchester.

But a much more ambitious development was to follow just over a decade later when Ford bought 119 hectares of Thames marshland in Essex – for £168,000. It then invested £5m to create a replica of its famous integrated factory at Rouge River, Michigan.

It was an act of considerable faith. Dagenham opened in 1931 in the teeth of recession. Business was so bad that in the final three months of that year Ford sold only five passenger cars. Its future could only get better.

After the end of the second world war, the company began a £75m expansion and modernisation programme at Dagenham. As soon as that was completed, insatiable demand for new cars prompted Ford to make a further £70m commitment in new facilities. These incinded a move away from the Dagenham site to a new £30m Halewood factory on Merseyside, opened in 1963. That was followed four years later by a £10.5m R&D centre at Dunton, Essex.

This consistency in spending, combined with the general decline in fortunes at other domestic producers such as British Leyland and Rootes, became the foundation stones of Ford'e current pre-eminence in the UK car and light commercial vehicle markets.

Mr Ian McAllister, chairman and managing director of Ford in the UK, says there will be no let-up in the investment programme. "We now have a total of $1bn (£610m) earmarked for Britain, for projects such as the new family of diesel engines at Dagenham, the Zetec SE engine at Bridgend and the sourcing of Jaguar panels from the Halewood press shop," he says.

In addition to the Escort-based multi-activity vehicle at Halewood, Dagenham has been confirmed as the lead site for the new generation Fiesta, and the next Transit van will be produced at Southampton, like the current one. Yet more money is going into component plants in Swansea and Belfast and into expansion at the R&D centre.

Equally significantly, Ford is investing substantial sums in the two struggling specialist vehicle makers it bought in the late 1980s, Jaguar and Aston Martin Lagonda. It is unlikely that either would have survived outside a big-volume car manufacturing group such as Ford.

For little Aston Martin, Ford ownership meant a new car (the DB7) and a new factory at Bloxham, Oxfordshire. It is now selling at record levels. It is also, according to the company, making a profit – rare in Aston Martin's long history.

Jaguar, which Ford bought for an astonishing $2.5bn, proved a bigger problem. It had a good image, but lousy manufacturing facilities, poor quality and no solid new model programme.

Mr Nick Scheele, Jaguar's chairman, recalls: "The patience of Ford during that period was incredible. Ford never once moved on the commitment for the new XJ6 and XK8 engine and the XK8 itself. We were pouring money into the company and we were losing it out of the far end at a rate of knots."

Now Ford is investing further to produce a smaller additional Jaguar – code-named X200 – to take on the BMW 5-series and Mercedes-Benz E-class, together with a new car assembly plant at Castle Bromwich in which to make it.

Despite the growth in Vauxhall (General Motors) sales since the early 1980s and the subsequent arrival of Japanese transplants, Ford manages to retain a clear edge in the UK new car market.

It has been the leading retailer for the past 21 years, during which time its investments in the country have totalled more than £5.25bn.

Richard Feast

THE VIEW FROM AMERICA • by Richard Waters

US says 'yes, prime minister'

Americans seem to have as much confidence in Blair as they had in Thatcher

The wave of money that has flowed across the Atlantic during the 1990s says it all. From the US, the UK still looks like the best place to do business in Europe – a picture thet has, if anything, been reinforced by the recent ehifts in the continent'e economic and political landscape.

American companies took over from the Japanese at the beginning of the decade as the world's biggest providers of foreign direct investment.

The UK has been a big beneficiary of this. During 1996, half of all US direct investment abroad went to Western Europe: of that, 40 per cent went to the UK, or some $18bn, according to the Bureau of Economic Analysis.

Also, at $143bn, the historic cost of US investment in Britain remains ahead of that in Germany, France and the Netherlands combined.

The pattern of earlier investmant provides one clue as to why the UK remains such a magnet for American money. Most new direct investment comes in the form of additions to – or modernisations of – existing facilities, rather than in the form of "green field" developments.

Ford Motor, for instance, has continued to invest in the UK despite a a decision earlier this year to retrench at its Halewood plant.

As much of 40 per cent of Ford'e new investment in Europe continues to end np in the UK as the company extends its existing plants, says Mr Ian McAllister, chairman of UK operations. Referring to one such investment, to build a new engine for cars assembled around the world, he adds: "It's easier to expand the Bridgend engine plant than to build a brand new facility somewhere else."

Mr Deryck Meughan, chairman of Salomon Brothers, offers a similar view. Like other US investment banks, Salomon has based its European headquarters in London and has good reason not to shift the base of its operations. "There is real embedded value – we are not all about to close up shop and rebuild elsewhere," he says.

It is this existing base of US manufacturing and service companies that has fuelled the most recent wave of American investment. In many industries, Europe'e single market programme has mada it far easier to serve tha entire continent from a single base, and that has led to a greater concentration of resources as companies search for economies of scale.

This, of course, is only part of the story. The structural reforme pnshed through hy Margaret Thatcher, particularly in the labour market, are widely seen in the US as the foundation for the UK's success.

"It's an extremely attractive place to invest," says Mr McAllister. "Labour is very, very flexible, and is educated." Ford has good relations with its unions, and has seen big prodnctivity improvements in recent years, he adds.

The UK is also benefiting from two more immediate considerations that have played prominently in the American consciousness. One has been its strong economic revival, in contrast to neighbours like France.

On his first to New York since becoming prime minister, Mr Tony Blair was beset with questione during a meeting with US financiers and businessmen about the political and economic upheaval in France, according to one person who was present. Britain's own stability, even after a landslide election victory, was taken as read: few doubt the "New" Labour claims.

"It'e absolutely astonishing how positive tha [US] press hae heen [abont Blair]," says Mr Geoff Robinshaw, deputy director of the Invest in Britain Bureau, a branch of the Department of Trade and Industry.

"If anything, the change of government has been seen as positive by US businessmen," he adds, "though, of course, it'e still a honeymoon period."

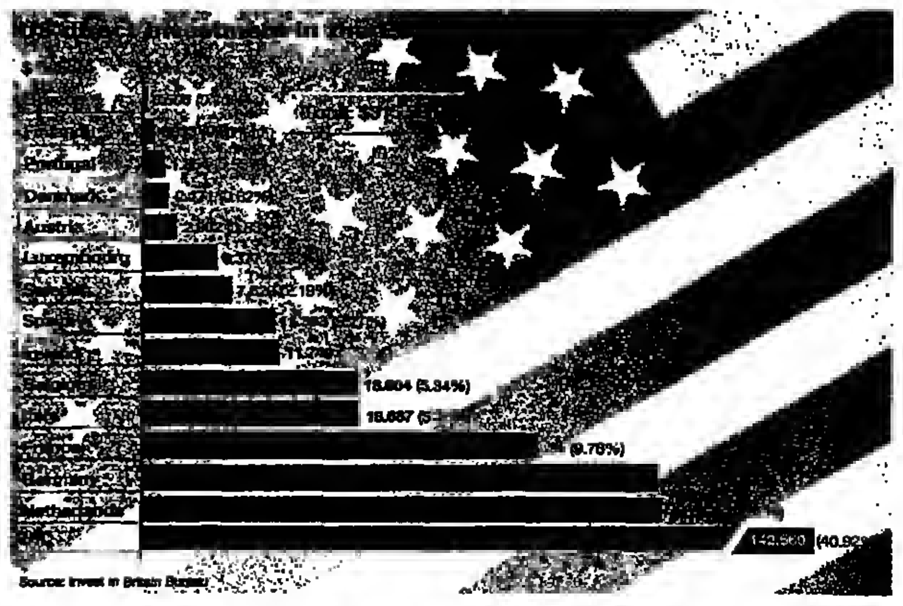
Tha other consideration has been a changing perception of Britain's place in Europe, thanks to the arrival of Mr Blair. This is always a strong concern for US companies which see the country as their launching pad for the European market.

The new prime minister's approach so far has hit just the right note for businessmen who want to see the UK close to the heart of Europe, but do not want to see it sucked into a catastrophically premature economic and monetary union.

"People are less concerned about the UK detaching itself from the rest of Europe," says Mr Maughan at Salomon Brothers. "The new governmant has extolled a more constructive policy on Europe, and doesn't have to deal with a dissident faction." Other EU countries, meanwhile, are being pushed by necessity to consider reforms that would make them more like the UK, further reducing the old rifts, he adds.

Eventually, though, there is little doubt among American executives that Britain will have to become a fully-paid up member of a European economic union. That belief is felt particularly keenly at a time when the etrength of sterling has eaten into the profits of companies that use the country as a base to export across the channel.

"We would certainly like the UK to move into Emu at some point in time," says Mr McAllister at Ford. "A stable currency makes planning a darn site easier. Every businessman would go for that."



Source: Invest in Britain Bureau

THE VIEW FROM GERMANY • by Graham Bowley

There's no place like overseas

Crisis conditions at home are making German industrialists look abroad

Germany, in the last years of the 20th cetitury, is experiencing a crisis of confidence. Unemployment, at more than 11 per cent of the workforce, is at the highest levels since the end of the second world war. There are interminable wranglings between the political parties, unions and industry leaders about what should be done to address the country's problems. Bitter are the disputes about the proposed reform of the tax system and the dismantling of cosy working practices and costly social legislation.

One especially hard blow to the nation's morale has been the growing wave of investment by German companies in other countries. While politicians have squabbled over possible reform at home, several of Germany's biggest companies have opted to shift sizeable parts of their production to faster-growing, less restrictive and cheaper areas abroad.

Daimler-Benz and BMW, two of the biggest car makers, have set up new factories in the American south; Continental, the tyre manufacturer, is in the process of shifting more of its production to factories in eastern and southern Europe; VW, the car maker, also has production in the cheaper east.

This pattern – and these companies' successes in foreign markets – helps to explain the spectacular rise of the German stock market to record highs at a time when domestic conditions are so depressed. The country's leading industrialists – who enjoy a high-profile in the German press – are every week criticised for exporting jobs abroad when their profits are so healthy; they usnally answer that more jobs abroad secure safer jobs for employees at home.

That Britain is, after the US and Austria, the biggest recipient of German investment, is a measure of the extent to which German companies value the business environment in the UK. In the view of many Germans, Britain – and even more so the US – has achieved many of the changes in terms of liberalisation of markets and of working practices that Germany now must necessarily embark upon.

"While Germany is fighting with the concept of Standort Deutschland [the idea that Germany is a competitive place to do business], for many German businesses the UK is already a Standort UK," says one British banker who advises German companies investing in the UK.

According to the German economics ministry, direct investment abroad by German companies was DM38.8bn last year, down from DM52.16bn in 1995. Investment in the UK totalled DM4.72bn in 1996, while investment in the US was DM8.77bn. At the same time, foreign direct investment in Germany by companies from other countries dropped last year to a record low of DM1.14bn, from DM18.23bn in 1995. According to figures published this month by the Organisation for Economic Co-operation and Development, the industrialised countries' think-tank, Germany recorded disinvestment last year after attracting inflows of $12bn in 1995.

The German companies that have invested in the UK include BMW, the car maker that bought Rover for £900m in 1994, and Siemens, the electronics and electrical group, which has built a large semiconductor plant in the north-east of England. BASF, the chemicals group, spent DM2.1bn in 1995 to buy the prescription drugs arm of Boots, the UK retailer. In the finance sector, Dresdner Bank, one of Germany's biggest, paid DM2bn for Kleinwort Benson, the UK investment bank.

"We are not seeing any let up in interest coming through from Germany with regards to expansion of existing inward investment and new investment," says Mr Andrew Kirby, who is in charge of a new inward investment unit set up by Barclays, the UK bank, in London.

Barclays has set up a dedicated team to provide UK banking services to foreign companies. "Inward investment has become so important to the UK economy," says Mr Kirby.

According to the companies investing in Britain, the UK's main attractions include low-cost flexible labour, good international communications, a large consumer market and high-quality financial and legal servicee. They are also attracted by the UK's position inside the European Union – as compared with eome other low-coet locations in Asia. Mr Kirby says the UK also offers attractive corporation tax rates, while the English language also plays a part. "There are fewer barriers to entry in the UK," he says.

A survey at the end of last year by the German chambers of commerce underlined the extent to which Germany's relatively high labour costs are a burden for German industry and why the costs are therefore a strong driving force behind investment abroad.

The survey found that 28 per cent of west German industrial companies planned to shift production abroad in the next three years. Companies planned to create at least 300,000 new jobs abroad by the end of 1999 – in large part because labour costs at home were too high. According to some measure, labour costs in the car industry are as much as twice as high in Germany than in the UK.

One present threat to investment into tha UK might be the strong and sudden appreciation of the pound on the foreign exchanges. But, maintains Mr Kirby, even with the rise of the pound against the D-Mark, the cost advantage is still large enough to attract investors to the UK.

"We are aware of acquisitions by major German companies. So despite the strength of the pound there does not seem to he any let-up," agrees one banker.

COMMERCIAL PROPERTY • by Anne Steadman

Site salesmen stress service

The regions now provide extras to convince foreign companies to move their way

Not a week goes by, it aeems, without news of another big overseas company deciding to set up shop in the UK. Behind thosa headlines is a plethora of organisations beavering away to persuade an incoming company of the merits of their individual areas in terms of communications, workforce skills, industrial and commerical sites and government grants.

Besides the three main national agencies: the Welsh development agency, Locate in Scotland, and the Northern Ireland development board, there are some 13 main regional agencies and a range of local authority departments, along with partnerships between the private aector and local authorities.

The government agency English Partnerships has become a leading force since opening in April 1994. Working with the Department of Trade and Industry, the Invest in Britain Bureau, and other bodies, it has enjoyed considerable success in its role of bringing together and co-ordinating key participants. As recent examples, it cites Samsung, Seimens, Sony and Ford-Jaguar, whose new projects alona account for more than £2bn of investment – and 7,000 jobs.

English Partnerships' complementary role is to facilitate the regeneration of derelict and damaged areas. Typical of this side of its operation is its activity in North Yorkshire, where it has just acquired 38 acres at the Elmet Enterprise Park, some six miles north east of the A1/M62 junction between Leeds and Selhy.

Working with North Yorkshire County Council and Selhy District Council, English Partnerships is to spend almost £4m in opening the site, which will benefit further from the A1/M1 link now under construction.


Building bridges...Newcastle-upon-Tyne – the north-east has been particularly successful in attracting overseas investors

North Yorkshire county council economic development officer Mr Jonathan French says that the infrastructure work is expected to take a year to 15 months, after which several advance units will be built. Mr French adds that North Yorkshire is continually trying to identify other suitable sites and guide them through the planning system.

The north-east has been conspicuously successful in attracting overseas investors. The latest recruit is the US Textron subsidiary Avco Trust. The financial services company will join Nike with its European headquarters at Doxford International Business Park in Sunderland.

Sunderland council prides itself on a private sector approach. According to principal economic development officer Mr Tom Hurst, it makes sure it "looks after" any companies moving to the area. It meets a new US executive at the airport – and helps that person find a house, schools, even a doctor. It also ensures that new businesses are found sites with adjoining land for expansion. The American TRW automotive company, for example, has expanded its plant three times in recent years. Lucas SEI, the joint venture between Lucas and Sumitomo, has doubled in size.

The council, adds Mr Hurst, is always looking ahead, ensuring that more good sites will be available in the two or three years after the investor has msde its initial commitment. It also provides ready-built space. It has 135,000 sq ft of speculative space available in the technology park adjoining the Doxford Business Park.

With its flagship investor Nissan now joined by a host of automotive companies, Sunderland targets the car industry hard. The council'a presence is likely to be prominent at big overseas trade exhibitions.

Attendance at international trade fairs targeting individual industrial sectors appears to be the current favourite marketing strategy. If Sunderland is to be found at automotive events, Lincolnshire County Council is likely to be at international food industry get-togethers.

Ms Jenny Gammon, Lincolnshire's marketing and development manager, aims to raise the county's profile – and also to be able to provide the right sites and premises. In Lincolnshire's favour, she says, are the low rents and land costs. And, of course, there is the lifestyle.

Ms Gammon is also a regular visitor to the annual property exhibition MIPIM, in Cannes, "to make sure the development industry is also aware of what we have to offer".

But if regions such as Lincolnshire and North Yorkshire have to work hard to aell themselves, thera is a problem of a different nature in the Thames Valley. The area is a magnet for the computer industry, attracted by the closeness of Heathrow, central London and the reputation of Oxford University. In Reading, Microsoft is currently building a UK headquarters of 500,000 sq ft and Oracle has just finished 300,000 sq ft, says Mr Peter Norris, chief executive of Thames Valley Economic Partnership – an alliance between the private and public aectors in Berkshire, Buckinghamahire and Oxfordshire.

More recently, Computer Associates submitted a planning application for a new 250,000 sq ft European headquarters at the Appleton Park/Ditton Park site adjoining the M4 at Datchet, Berkshire. Mr Norris says that the company had heen looking for a site in the area for some time, without success. His organisation was able to help by "exerting a positive influence" on both the local planners and the Ministry of Defence with which Computer Associates is in negotiation to buy part of the site.

The Thames Valley's "Silicon Valley" tag seems to be justified. Mr Norris notes that some 150 companies from its Californian namesake are represented in the area. More would like to come, but there is the perception that they will be unable to find sites. Mr Norris admits that there is not room for them all; some might have to look to towns and cities elsewhere in the south-east such as Guildford or Southampton.

There is no doubt that the wooing of inward investors – and the provision of sites for them in the UK – has become much more sophisticated in recent years. Some observers, though, feel that the whole process is costing too much. Several of the many agencies involved are exceptionally efficient, hut there are still those that have yet to grasp the need for instant answers – and instant solutions – to investors' problems. There is, as well, often unnecessary duplication of resources and effort. The competition between Forth Valley Enterprise and Lanarkshire development agency to bring Nokia to Scotland is cited as an example hy one Scottish chartered surveyor.

PROFILE **Pharmaceuticals sector**

A favourite tonic for foreign companies

The growing strength of the industry is one of the UK's great success stories

Pharmaceuticals is one of the UK's strongest industries. It directly employs between 70,000 and 80,000 people, and three or four times that indirectly.

Much of that success is the result of a strong domestic industry led by Glaxo Wellcome, SmithKline Beecham and Zeneca. But the UK is also the most popular choice for foreign drugs and healthcare companies, and is often used as a base for the whole of Europe.

Foreign investors involved in the UK range from drugs companies such as Pfizer of the US to more specialised healthcare businesses such as Quintiles, the American contract research organisation (CRO).

Government, agencies and companies all believe that inward investment in healthcare is at a high level. However, finding precise statistics is difficult. There are numbers on investment as a whole, occasionally subdivided by industry. However, these rarely distinguish between inward investment and domestic investment. In regions such as Scotland, "inward investment" might include money from English companies. Furthermore, the figures do not clearly differentiate between investment that is buying businesses, expanding businesses or building green field start-ups.

The complexity of the problem is illustrated by the experience of Astra, the fast-growing Swedish drugs company. In June 1995, Astra paid £202m for the UK and US research and development operations of UK drug company Fisons.

Last February, the company launched a £63m programme to build new laboratories at the Loughborough site. It has also built a research unit in Edinburgh and a packaging manufacturing site in Corby. The number of people it employs in the UK has risen from 1,600 to 1,750 in the past 12 months.

The scale of Astra's investment is not unusual. The US company Pfizer invested £280m between 1991 and 1996 at its site in Sandwich, Kent. Over that period, staff numbers increased from 2,000 to 3,400.

Nor is the cash limited to pharmaceuticals. Two US company that run medical trials for drugs companies have invested in Scotland. Quintiles paid £12m for an Edinburgh site in 1995 and, according to medical investment lobbyists London Medicine, is spending another £30m in tha UK. As well, Tennessee-based Clintrials announced in May it would create 240 jobs in Glasgow.

The list goes on, with investments in tha past 18 months alone coming from US companies Merck, Genzyme and Ivax, as well as US-Swedish company Pharmacia & Upjohn (which has established its global headquarters in Windsor) and France's Rhône-Poulenc. Japanese companies Eisai, Takeda and Yamanouchi have all either initiated investment or said they would expand their UK operations.

Will this continue? The signs are good. London is the headquarters of the European Medicines Evaluation Agency, which co-ordinates pan-European drug approval and which should see its powers increased over the next few years. The UK has a strong scientific base, and although most pharmaceuticals companies locate in the south east, there are also concentrations in the north west and in Scotland.

The UK drug price regulations, which reward investment with higher profits to companies, is unlikely to be changed under the new Labour government. And finally, the UK has the biggest biotechnology sector in Europe, a demonstration that the business of drug discovery is not short of entrepreneurial energy.


Tracy the transgenic sheep: biotechnology adds to Britain's appeal

Daniel Green

PROFILE **Machine tools sector**

Pounding away nicely

To a large extent, FDI has helped keep the British machine tool industry alive

Of Britain's total machine tool output – expected to be some £850m this year – more than half will come from companies whose headquarters are outside the UK.

Although the sums injected into Britain in investment in machine tool production are not large by the standards of other industries, the cash represents a steady drip-feed of financing that has helped to maintain a UK industry, many of whose main domestically owned companies have either disappeared or suffered difficult times.

One of the biggest inward investors has been Yamazaki Mazak, one of the Japan's big three machine tool makers, which set up a plant in Worcester a decade ago, helped by a £5.2m government grant. The initial investment of £35m has been followed by extra funds for expansion, bringing total output to an estimated £80m a year.

Cincinnati Milacron, the large US machine tool company, employs 500 in its Birmingham factory, where it has in tha past year invested £3m in product development and new manufacturing systems to bring out a new series of "no frills" machine tools aimed at overseas markets. Output from the plant this year is likely to be more than £100m, above last year's figure of about £93m.

Heller, a privately owned German machine fool company, has a manufacturing base in Redditch in the Midlands and is studying the possibility of expanding after a successful project to recruit local people and train them in new skills.

Much of the investment in machine tool production in the UK, put at around £40m a year, is met from the companies' own internal cash generation, with the British ends of the businesses having a fair amount of autonomy from their head offices outside the country.

A case in point is the US-owned Bridgeport, which runs its European manufacturing operations from Leicester. Its own series of machine tool products are designed specifically for requirements in Europe and also for the fast growing markets in south east Asia.

While much of the UK industry enjoyed an upswing from 1992 onwards, helped by the boost the weak pound gave to exporters, sales activity has been held back by sterling's 18 per cent appreciation against other important currencies. A company particularly hit has been Matsuura, the Japanese machine tool maker that set up its first UK plant last August, just when sterling was rising rapidly. It admits that margins are suffering as a result.

Mr Geoff Noon, head of statistics at the Machine Tool Technologies Association, the UK trade body for the industry, is forecasting weaker growth over the next year but saya the UK remains an "attractive place" for machine tool investment. This is partly due to such factors as fairly low wage costs and relatively few restrictions on working hours and shift patterns.

Peter Marsh

8 INVESTMENT INTO THE UK

The privatisation and deregulation programme begun by Margaret Thatcher has created more opportunities for foreign investors. How the American commitment to customer service is making its mark on parts of two former nationalised industries

RAILWAYS • by Charles Batchelor

Refining the iron horse

The influence of a US railroad is helping to revive the British freight train business

Wisconsin Central Transportation, the US railroad that has acquired most of British Rail's freight operations, is working on plans to set up a "one-stop" customer service centre to deal with queries and complaints.

Equipped with "smart" information technology systems to answer customer calls, the centre is intended to replace the 16 different points of commercial contact that BR maintained in the past.

This emphasis on customer service is one of the most telling signs of the change that is sweeping the rail freight industry and of the application of "imported" ideas to a traditional business sector.

BR operated an efficient and profitable freight service for a relatively small number of bulk customers but left many smaller companies with bitter memories of poor service and unfulfilled expectations.

Established in 1987 by Mr Ed Burkhardt, a life-long railman, Wisconsin took over stretches of under-used freight railway track around the Great Lakes when the US railroad network was deregulated. It has since acquired routes in Canada and, in 1993, the New Zealand rail network.

One of Wisconsin's priorities after acquiring BR's Trainload Freight business – since renamed English Welsh & Scottish Railway – in February 1996 has been to reduce its dependence on bulk freight. It is developing its single wagon and part-train business, which in the US accounts for 80 per cent of its revenues.

In the run-up to privatisation BR freight managers launched an "Enterprise" service, designed to revive the single wagon business from which BR had withdrawn in the early 1990s.

Although the idea came from BR managers, Mr Ian Braybrook, EWS managing director, is convinced its continued expansion, across more of the rail network and with faster trains, has been because of Wisconsin's commitment to the project.

Trains running at up to 75mph, instead of the previous maximum of 60mph, are part of EWS managers' attempt to fit rail into the just-in-time schedules of manufacturers, distributors and retailers.

Safeway this month became the first retailer to test out overnight shipments between the Midlands and Scotland.

But fitting rail into tight delivery schedules requires better communications between train drivers and headquarters. EWS is now drawing up plans for an in-cab radio system.

Railtrack is working on industry-wide radio links but EWS says it is prepared to go it alone if necessary. "American managers were amazed at how primitive our communications systems were," says Mr Braybrook.

In the US train drivers use radio to tell head office if they have been delayed and even to warn the sales department if a road haulier is sighted on a rail customers' premises.

As part of its attempts to provide a comprehensive service to its customers Wisconsin is backing the establishment of a UK wagon plant by the US manufacturer Thrall Car with a commitment to buy about 500 wagons a year. BR acquired no new wagons after 1991, which meant its customers had to either buy or lease their own. This was not only inconvenient but also meant customers had to commit funds to a very long-term asset.

Back on track: BR's freight business, renamed English Welsh & Scottish Railway, has recently won business from the supermarket chain Safeway

As well as acquiring new wagons EWS has ordered 250 new US-made diesel locomotives for its UK operation. Mr Burkhardt believes US manufacturers can provide cheaper, more reliable equipment because of their long production runs.

But the innovation flow has not been only one-way, reflecting the very different conditions of the UK rail market. In the US, railroads are primarily devoted to freight business, with relatively slow-moving trains transporting goods over vast distances.

In the UK, in contrast, the railway's main function is moving passengers over frequently very busy stretches of track. Freight operators must fit into the passenger schedules or risk paying penalties if passengers are delayed.

One area where BR had developed considerable expertise, moving bulk shipments over short distances – between say a coal mine and a power station – was relatively unknown in the US. Wisconsin is now drawing on the experience of its British managers to develop this business on its American routes.

TELECOMMUNICATIONS • by Stefan Wagstyl

Answering the call of competition

AT&T believes that the UK offers some of the best opportunities in Europe

While foreign-owned service companies have yet to have the same impact on the British economy as overseas manufacturing groups, their influence is growing rapidly.

The deregulation of basic services such as electricity, water and telecommunications means millions of consumers can already choose a foreign-owned supplier for their essential utilities. And millions more will be able to do the same in future.

One company that has capitalised on deregulation is AT&T, the US telecommunications group, which has in the past three years invested US$500m in a UK telecommunications service business with an annual turnover of $500m.

AT&T was already well known in the UK before the 1990s as a supplier of international telephone services and a manufacturer of telecommunications and computer equipment that had factories in Britain. But the company has changed direction in the past few years by selling off most of its global manufacturing interests to concentrate on telecommunications services. In the UK, a telecommunications business that employed just 50 or so people three years ago now has 2,750 staff and is growing at the rate of about 300 jobs a year. In June, the group moved its European headquarters from Brussels to London. It also has regional offices in Redditch, Manchester and Edinburgh.

"The UK has a very friendly climate for foreign investors," says Mr Merrill Tutton, who has spent the last three of his 31 years with AT&T as president of the UK operations. "The liberalisation of telecoms has created great opportunities for us. The UK leads the rest of Europe in liberalisation."

Mr Tutton says that since levels of service in the British telecommunications market still fall short of customers needs there are many opportunities for a newcomer to make its mark in the market. For example, a 24-hours-a-day, seven days a week service is not available for most British telephone users. "My view is that the market is under-serviced in comparison with the US. I would urge companies entering the British market to pay attention to service," says Mr Tutton.

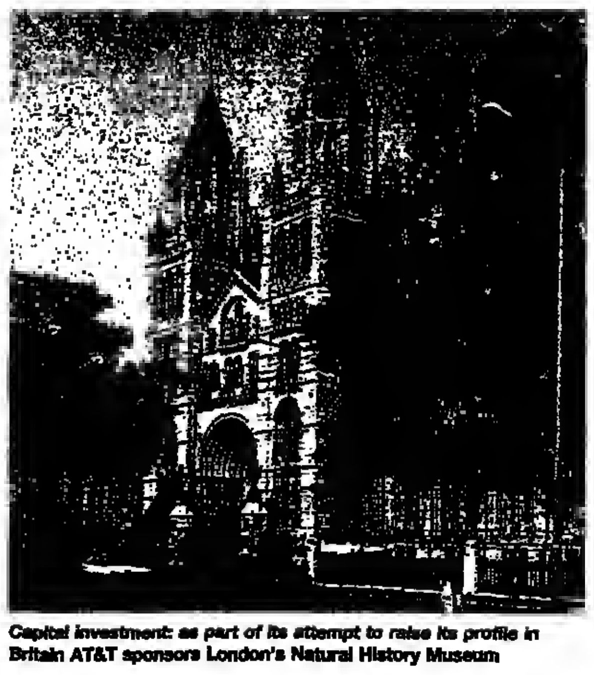
Cultural differences play a part in differing service levels in different countries, but, says Mr Tutton, lack of customer satisfaction in the UK telecommunications market mainly reflects the relatively late arrival of deregulation and competition. In other sectors of British industry there are companies that put a high premium on service – obvious examples being Marks & Spencer, the high street retailer and Direct Line, the financial services company.

Mr Tutton argues that value-added telecommunications services are set to grow rapidly in the UK. Already the UK accounts for half of Europe's call centres, he says, with companies moving from the Continent to the UK to take advantage of low labour costs and flexible employment contracts.

Mr Tutton says that it is important for companies that enter the UK market to spend a lot of time talking to customers. AT&T formalised this process by establishing a customers' advisory council for senior staff from AT&T and client companies.

The company has also established links with the telecommunications industry by joining the Parliamentary information technology committee, which fosters ties between business and politicians. "It works very well for us," says Mr Tutton.

Mr Tutton says it is also important to make a good impression in the wider community by sponsorship. But companies should focus their efforts on activities that have some relevance to employees and customers, he says. AT&T supports the Almeida Theatre in Islington, the Natural History Museum in Kensington and the European Youth Orchestra. "It's subtle but classy," he says.



Capital investment: as part of its attempt to raise its profile in Britain AT&T sponsors London's Natural History Museum

Tests for money magnet

Continued from page 1

vestment by foreign companies in the UK, which are most unlikely to seek new pastures unless economic conditions change drastically.

However, the UK faces some serious challenges if it is to accommodate foreign companies' needs, particularly the requirement for skilled workers. Some investors have already been accused of poaching staff from existing companies, including other foreign-owned plants. For example, electronics companies in South Wales have complained that LG, which eventually plans to employ 6,100, has recruited some of their key employees.

Staff shortages are especially acute among software engineers and information technology managers. Companies welcome Labour's commitment to raising education and training standards – but recognise that it could be a long time before they feel the benefits of such policies.

The enlargement of the EU into eastern Europe could increase the competition among member countries to offer sites with low labour costs.

Labour's answer is to wean Britain away from its reliance on low labour costs as a competitive advantage and develop its reputation as a location for high-skill, high-pay operations such as design and development. The success of this strategy will depend crucially on the success of Labour's education policies.